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ECONOMIC AND INDUSTRIAL AFFAIRS

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24 April 1985

**EAST EUROPE REPORT
ECONOMIC AND INDUSTRIAL AFFAIRS**

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CZECHOSLOVAKIA

EFFECTS OF IMPROVEMENTS ON AGRICULTURE SINCE 1982 IN CSR

Bratislava EKONOMIKA POLNOHOSPODARSTVA in Czech No 12, 1985 pp 533-537

[Article by Eng Vaclav Korinek and Eng Frantisek Filip, Ministry of Finances of the CSR: "Effects of Adjustments on the Improvement System of Planned Management in Agriculture on the Economy of the CSR Agricultural Organizations Since 1982"]

[Text] The measures for the improved planned management system of agriculture, approved by CSR Government Decision No 272/1981, became effective on 1 January 1982. Their essential part consisted of changes in the sector of economic mechanisms.

In the first 2 years (1982-1983) the effect of the adjustments of economic mechanisms represented an important change in the management of our agricultural enterprises.

Of the change in force since 1982 the following should be mentioned in particular:

--redistribution of national income to the benefit of the CSR socialist agriculture in an amount projected at about Kcs 1.9 billion (of which Kcs 0.9 billion to the state agricultural organizations);

--adjustments of the prices of inputs and of procurement prices of agricultural products;

--adjustments of supplementary prices and non-price mechanisms (non-investment grants).

In addition to the adjustments in the sector of economic mechanisms, certain subsequent material (production) changes in the state plan for 1982 that had not been envisaged by the approved adjustment of economic mechanisms were distinctly reflected in the management of our agricultural organizations (by which we mean the state agricultural organizations--SZO--and the cooperative organizations--DO).

The following changes must be noted:

--the change in the structure of our livestock production in linkage with restricted grain imports;

--the consumption of motor fuels restricted by the stipulation of mandatory limits.

Weather conditions, which also distinctly influenced the economic results, developed on the whole relatively favorably, however, with considerable differences in various areas (some okreses were affected by a major drought).

The Fulfillment of Basic Indicators of the Financial Plan

Along with the consolidation of the payment of agricultural costs from society-wide resources the relatively good fulfillment of the tasks of production was clearly reflected in the level of financial results (Table 1).

Outputs

In 1982-1983 our agricultural organizations in their totality (SZO and DO) overfulfilled their planned outputs by Kcs 11.6 billion, of which in 1983 by Kcs 8.3 billion; that demonstrates above all excellent results in primary agricultural production.

Besides more intensive production, the development of outputs was affected by the adjustments of procurement prices and of auxiliary price mechanisms. The effect of adjusted procurement prices is reflected in outputs essentially as projected and in direct relation to the standards for the procurement of agricultural products. However, the effect of the changes of economic mechanisms included in the grants on receipts has somewhat deviated from the quantification. Higher agricultural production for the market drew higher bonuses and differential premiums.

Costs

Relative savings of total costs, expressed in conversion to per Kcs 100 of outputs, including special returns, contributed to higher efficiency of the primary agricultural production. Above-plan savings per Kcs 100 of outputs, including special returns, amounted to Kcs 0.76 (i.e., 0.8 percent) in 1982 and to Kcs 2.79 (i.e., 3.1 percent) in 1983. The relations of costs to outputs is very advantageous; for the first time in recent years the growth of outputs conspicuously outpaced the costs, which was reflected in the notable overfulfillment of the planned level of profits. The development of costs according to individual sectors is presented in Table 2.

The positive development of costs was affected on the one hand by the costs saved because of restricted deliveries and stricter limits, and on the other by good weather.

The years 1982 and 1983 meant for our agriculture definite orientation toward the conservation of raw materials and energy, which was reflected in lower

consumption of the procured (imported) fodders and of motor and other fuels. This conservation of material costs compensated for higher prices of those two most vital commodities.

Another positive factor affecting the conservation of costs was the favorable weather during the harvest of most of the crops. The reduction of the costs of harvests in recent years is estimated at Kcs 100 per hectare of agricultural lands, which represents an annual savings of approximately Kcs 390 million.

Unlike the above-mentioned costs, i.e., the consumption of fodders and of motor fuels, most of the remaining material costs were exceeded, which negatively affected the further growth of efficiency. The greatest overruns were noted in: other outputs of a material nature, current prices of the screened-out capital assets, and the change of the remaining time-differentiated material costs.

Overall wage costs in 1983 were Kcs 1.20 per Kcs 100 of outputs below the projection of the plan. Planned wage costs were absolutely exceeded by Kcs 0.6 billion; however, that remained within the valid regulations of wage and reward controls approved as part of the measures for improving the planned management system of our agriculture since 1982.

Profits

Profits earned by our agricultural organizations over the 1982-1983 period were Kcs 4.1 billion, i.e., 33.1 percent higher than the plan; of that, the state agricultural organizations overfulfilled their profit-making plan by Kcs 1.5 billion (57.7 percent) and the cooperative organizations by Kcs 2.6 billion (26.5 percent).

Profits earned in 1983 are the highest in the history of our socialist agriculture thus far. In comparison with the record year of 1974, the 1983 profits were Kcs 2 billion higher (i.e., up 28.5 percent).

From the development of the basic value indicators (outputs, costs, profits) it is evident that the adjustments of economic mechanisms since 1 January 1982 were favorably reflected in the achievements of the financial management of our agricultural organizations as a whole, which is confirmed by the fact that the profitability achieved by our agricultural organizations in 1983 (11.2 percent) exceeded the objectives stipulated by the system (11.1 percent) by 0.1 percent.

Differentiation in Profitmaking

The basic characteristic of the effect of adjusted economic mechanisms on profitmaking is the narrowing gap between the JZD [unified agricultural cooperatives] and the state farms in terms of the share of profitability of wages (Table 3).

Nevertheless, profitmaking is still greatly differentiated within individual sectors; in 1982 it was intensified by the variations in weather conditions.

Thus, for instance, the average profitability of the JZD amounted in 1982 to 10.7 percent and the difference between the best (South Moravia--14.5 percent) and the poorest (West Bohemia--4.7 percent) krajs was 9.8 percent. In state farms the difference between the best and the poorest krajs was 9.1 percent.

In 1983 the average profitability of the JZD's in the CSR was 12.8 percent, but in the South Moravia Kraj it was 15.2 percent and in the Central Bohemia Kraj only 8.9 percent. The state farms achieved their highest profitability in South Moravia (13.56 percent) and the lowest in North Bohemia (3.07 percent).

In 1982 the effect of the changes of economic mechanisms partly erased the differences in profitmaking between individual production areas. The problems of differentiated incomes are concentrated in the potato-growing area which reported the lowest profitability, although the intensity of its production exceeded the level of the potato-oat producing areas and of the highland areas. This has been confirmed by the study of the system of selected JZD's which followed the costs of production for the VUEZVz [Research Institute of Economy of Agricultural and Food Production], as summarized in Table 4.

This trend calls for particular attention and responsible assessment over an extended period.

Consolidation of the Situation of Incomes of Agricultural Organizations

Considerably increased profitmaking greatly strengthened total resources and thus also the kholraschet position of our agricultural organizations. In order to assess its development, the results achieved in the first 2 years of the implementation of the system (1982 and 1983) were compared with the preceding 2-year period (1980 and 1981); in the assessment of the financial and property situation, the year 1983 is compared with the initial basis, i.e., 1981.

After deducting agricultural taxes accumulated by the organizations during the first 2 years of the implementation of adjustments (Table 5), the share of the SZO's in the increase of the assets for distribution is 34.5 percent, and that of the DO's 65.5 percent.

The noticeably improved accumulation of assets was favorably reflected in the financial and property situation of our agricultural organizations toward the end of 1983 (Table 6), which in comparison with 1981 was characterized by an increase of the funds of the enterprises, which was substantially faster (roughly 10 times) than that of credits.

However, the improving situation of incomes of our agricultural enterprises, evident from the growth of internal resources for financing, goes hand in hand with a considerable growth of needs, both in the investment and in the operational spheres. As compared with the average in the preceding 2 years (1980, 1981), investment needs rose annually in the first 2 years of the implementation of the system on the average by Kcs 2.1 billion (i.e., 117.3 percent) and the situation of working capital was up Kcs 3.7 billion (i.e., 5.5 percent),

including Kcs 3.4 billion in inventories. For that reason, in addition to their accumulated internal resources, credits had to be used to finance the needs of agricultural organizations, primarily of organizations operating in average conditions in potato-growing areas.

Financing of investments (Table 7) is characterized by:

- a considerable increase of internal resources (allocations from the fund for capital formation + depreciations), and their share in total assets;
- a faster rate of growth of internal resources, which conspicuously outpaced the rate of growth of credits;
- a smaller share of grants from the state budget and state funds and by their lower total volume.

In the financing of working capital (Table 8) it is evident that:

- the share of internal resources (revolving and other operational funds) of the organizations, covering higher working capital, was increased; [working capital] marked the highest absolute growth of all resources;
- the share of credits was distinctly reduced;
- the share of other resources for the financing of higher working capital was increased.

Higher accumulation of financial resources helped cut significantly the high rate of growth of credits encumbering our agricultural organizations. In the Sixth 5-Year Plan the average annual growth of credits amounted to Kcs 2.3 billion (of which Kcs 1.6 billion in the DO's and Kcs 0.7 billion in the state sector).

In 1982 credits rose by only Kcs 1.1 billion, of which Kcs 0.9 billion in the cooperative sector and Kcs 0.2 billion in the state sector; in comparison with the average for the Sixth 5-Year Plan, the increase of credits was roughly 52 percent lower. Moreover, in 1983 the credits rose only by Kcs 0.2 billion; in the cooperative sector they declined by Kcs 42 million and in the state sector they rose slightly--by Kcs 0.2 billion.

A positive symptom of a stronger situation of incomes is the fact that as compared with the preceding years, the overrun in the distribution of economic results markedly declined. In the 2 years of the implementation of the system, it amounted to only Kcs 276 million, as compared with Kcs 615 million in the preceding 2 years, and moreover in 1983 to only Kcs 27.3 million, in which the JZD share was Kcs 27 million.

Table 1

Financial Results of Agricultural Organizations in the CSR (billion Kcs)

Tabulka 1

Finanční výsledky zemědělských organizací ČSR [mld Kčs]

(1) Ukazatel	1982				1983			
	(2)SZO		(3)DO		(2)SZO		(3)DO	
	(4) plán stát.	(5) skut.	(6) plán	(5) skut.	(4) stát. plán	(5) skut.	(6) plán	(5) skut.
Výkony (7)	23,2	23,9	57,7	58,7	23,7	25,7	58,6	63,4
Výkony vč. mimoř. výnosů (8)	23,4	24,5	58,3	60,5	23,9	26,3	59,3	65,2
Náklady celkem (9)	22,1	22,8	53,3	55,0	22,6	23,9	54,5	58,3
Nákladovost* (10)	94,57	93,18	91,41	90,89	94,65	91,04	91,93	89,47
Zisk (11)	1,3	1,7	5,0	5,5	1,3	2,4	4,8	6,9

* celkové náklady na 100 Kčs výkonů vč. mimoř. výnosů (propočteno z údajů v mil. Kčs). (12)

Key:

1. Indicator
2. State agricultural organizations
3. Cooperative organizations
4. State plan
5. Actual situation
6. Plan
7. Outputs
8. Outputs, including special returns
9. Total costs
10. Expenditures*
11. Profits
12. * Total costs per Kcs 100 of outputs, including special returns (calculated from the data in million Kcs)

Table 2

Main Indicators of Economy of Agricultural Organizations in the CSR

Ukazatel (1)	Měrná jednotka (2)	1980	1981	1982	1983			(6) Rozdíl proti st. plánu	(7) Změna st. plánu (%)	(8) Index 83/81
					(3) st. plán	(4) podnik. plán	(5) skutečnost			
(9) Družstevní organizace										
(10) Náklady celkem z toho: materiální náklady a služby nemateriální povahy bez od- pisů mzdové	mil. Kčs	48 862	50 812	55 049	54 515	55 914	58 293	+ 3778	106,9	114,7
(11) Výkony a mimořádné výnosy z toho: dotace k tržbám výkony	mil. Kčs	29 695	30 605	34 221	33 574	34 709	36 615	+ 3041	109,1	119,6
(12) Výkony a mimořádné výnosy z toho: dotace k tržbám výkony	mil. Kčs	11 627	11 990	12 245	12 230	12 486	12 677	+ 397	103,2	105,7
(13) mimořádné výnosy	mil. Kčs	1 674	2 380	1 887	58 679	59 640	660	63 383	108,1	121,6
(14) Zisk (+), ztráta (-) celkem	mil. Kčs	4 705	3 666	5 517	4 785	4 895	6 861	+ 2076	143,4	187,2
(15) Na 100 Kčs výkonů a mim. výnosů závislost:										
(16) materiál. nákladů nákladů celkem mzdových nákladů	Kčs	55,44	56,18	56,50	56,62	57,08	56,20	— 0,42	99,3	100,03
(17) Rentabilita (zisk/celkové náklady)	%	9,63	7,21	10,02	8,78	8,75	11,77	+ 2,99	134,1	163,2
(18) Státní organizace										
(19) Náklady celkem z toho: materiální náklady a služby nemateriální povahy bez odpisů	mil. Kčs	20 411	21 081	22 812	22 606	22 764	23 930	+ 1324	105,9	117,5
(20) Výkony a mimořádné výnosy z toho: dotace k tržbám výkony	mil. Kčs	12 834	13 110	14 550	14 413	14 446	15 317	+ 904	106,3	116,8
(21) mimořádné výnosy	mil. Kčs	5 046	5 175	5 277	5 206	5 261	5 446	+ 240	104,6	105,2
(22) Zisk (+) ztráta (-) celkem	mil. Kčs	1 054	732	1 670	1 278	1 127	2 355	+ 1077	184,5	321,7
(23) Na 100 Kčs výkonů a mim. výnosů závislost:										
(24) materiál. nákladů nákladů celkem mzdových nákladů	Kčs	59,79	60,10	59,43	60,35	59,72	58,27	— 2,08	96,6	97,0
(25) Rentabilita (zisk/celkové náklady)	%	5,16	3,47	7,32	5,65	6,27	9,01	+ 4,19	174,0	233,6

Key:

- 1. Indicator
 - 2. Specific unit
 - 3. State plan
 - 4. Enterprise plan
 - 5. Actual situation
 - 6. Difference in comparison with the state plan
 - 7. Fulfillment of the state plan (in percent)
 - 8. Index 1983/1981
 - 9. Cooperative organizations
 - 10. Total costs
 - 11. of which: material costs and services of non-material type without
 - 12. Outputs and special returns
 - 13. of which: grants on receipts outputs special returns
 - 14. Profit (+), loss (-) total
 - 15. Share of outputs and special returns per Kcs 100 of:
 - 16. material costs total costs wage costs
 - 17. Profitability (profits/total costs)
 - 18. State organizations
- depreciations wages

Table 3

Development of Profitability (in percent)

(1) Ukazatel (rentabilita)	1981		1982		1983	
	(2) JZD	(3) St. st.	(2) JZD	(3) St. st.	(2) JZD	(3) St. st.
Zisk celkem (4) k nákladům	7,37	0,81	10,73	5,72	12,83	9,17
Zisk vč. dotací k zisku* (5) bez celé zem. daně k nákladům	5,98	4,80	8,55	8,04	10,05	10,37

* dotace k zisku: fond intenzifikace, FSPS, subvence do provozu (6)

Key:

1. Indicator (profitability)
2. Unified agricultural cooperatives
3. State plan
4. Total profits on costs
5. Profits, including grants on profits * without total agricultural taxes on costs
6. * Grants on profits: intensification fund, FSPS, operational subsidies

Table 4

Intensity of Agricultural Production and Profits in the CSR According to
Production Areas

Výrobní oblast (1)	(2) Hrubá zemědělská produkce na 1 ha z. p.		(3) Zisk z realizace na 1 ha z. p.	
	1980	1982	1980	1982
Kukuřičná (4)	18 508	21 509	1682	2048
Repařská (5)	19 405	19 943	1587	2367
Bramborářská (6)	15 556	15 699	920	1702
Brambor.-ovesná (7)	14 089	14 921	1094	2250
Horská (8)	10 798	11 194	652	1850
Celkem (9)	16 998	18 031	1259	2239

Key:

1. Production area
2. Gross agricultural production per hectare of agricultural land
3. Profits from production per hectare of agricultural land
4. Corn-growing
5. Beet-growing
6. Potato-growing
7. Potato-oat-growing
8. Highland area
9. Total

Table 5

Resources for Distribution After Deduction of Agricultural Tax (million Kcs)

Ukazatel (1)	1980+1981	1982+1983	Index	Rozdíl (2)
Státní zemědělské organizace (3)	2 982	4 503	151,0	+ 1521
Družstevní organizace (4)	7 666	10 550	127,6	+ 2881
Zemědělské organizace celkem (5)	10 648	15 053	141,4	+ 4405

Key:

1. Indicator
2. Difference
3. State agricultural organizations
4. Cooperative organizations
5. Total agricultural organizations

Table 6

Development of the Situation of Assets as of 31 December 1983 as Compared With 1981 (million Kcs)

Ukazatel (1)	(2) Státní zemědělské organizace			(3) Družstevní organizace		
	1981	1982	1983	1981	1982	1983
1. Fond základních prostředků (4)	29 891,5	31 485,2	33 617,9	54 711,7	58 166,3	62 479,7
2. Fond výstavby (5)	1 154,2	1 181,8	1 230,9	1 143,2	1 169,3	1 262,6
3. Obratový fond (6)	10 246,9	10 498,1	10 737,4	23 585,2	23 875,9	24 283,5
4. Fond odměn (7)	328,6	473,6	632,1	800,8	1 190,8	1 563,9
5. Fond kulturních a sociálních potřeb (8)	135,8	169,8	180,9	445,1	613,9	781,2
6. Rezervní fond (9)	601,6	811,7	969,7	5 418,9	5 920,0	6 400,4
7. Ostatní fondy (10)	48,9	51,1	59,9	1 376,7	1 298,9	1 204,5
Celkem vlastní zdroje (11)	42 407,5	44 671,3	47 467,8	87 481,6	92 235,1	97 975,8
Stav investičních úvěrů (12)	2 057,9	2 206,6	2 386,3	5 332,6	5 719,4	6 053,9
Stav provozních úvěrů (13)	6 525,3	6 575,2	6 653,9	9 171,4	9 701,2	9 324,5
Stav úvěrů celkem (14)	8 583,2	8 781,8	9 040,2	14 504,0	15 420,6	15 378,4
Roční přírůstek: (15)						
— celkem vlastních zdrojů (16)	1 651,7	2 263,8	2 796,5	3 604,1	4 753,5	5 740,7
— celkem úvěrů (17)	— 245,0	198,6	258,4	1 071,9	916,6	— 42,2

Key:

1. Indicator
2. State agricultural organizations
3. Cooperative organizations
4. Fund of capital assets
5. Fund of capital formation
6. Revolving fund
7. Special compensation fund
8. Cultural and social services fund
9. Emergency fund
10. Other funds
11. Total internal resources
12. Situation of investment credits
13. Situation of operational credits
14. Situation of credits--total
15. Annual increase:
16. Internal resources--total
17. Credits--total

Table 7

Development of Financing of Investments of Agricultural Enterprises (million Kcs)

Ukazatel (1)	Roční (2) průměr 1980, 1981	%	Roční (3) průměr 1982, 1983	%
Souhrn fin. potřeb(4)	12 200		14 310,5	
Souhrn fin. zdrojů (5)	12 363	100	14 274,5	100
z toho:(6)				
vlastní zdroje (7)	7 800	63,1	9 752	68,3
úvěry(8)	1 068	15,1	2 216,6	15,5
dotace ze stát. rozpočtu a stát. fondů (9)	1 459,5	11,8	1 295	9,1
ostatní zdroje (10)	1 232,5	10	1 011	7,1

Key:

1. Indicator
2. Annual average 1980, 1981
3. Annual average 1982, 1983
4. Total financial needs
5. Total financial assets
6. Of which:
7. Internal resources
8. Credits
9. Grants from the state budget and state funds
10. Other resources

Table 8

Development of Financing of Working Capital in Agricultural Enterprises

Ukazatel (1)	Přírůstek (2) 1980, 1981*	%	Přírůstek (3) 1982, 1983*	%
Oběžné prostředky:(4)	3 464	100,0	6 766	100,0
Zdroje krytí:(5)				
— vlastní zdroje (6)	393	11,3	3 852	56,9
— úvěry (7)	2 979	86,0	306	4,5
— ostatní zdroje (8)	92	2,7	2 608	33,6

* Přírůstek za období: (9)

1. 1. 1980 — 31. 12. 1981 (10)

1. 1. 1982 — 31. 12. 1983

Key:

1. Indicator
2. Increase 1980, 1981 *
3. Increase 1982, 1983 *
4. Working capital
5. Covered from resources:
6. Internal resources
7. Credits
8. Other resources
9. * Increase for the period:
10. 1 January 1980-31 December 1981
1 January 1982-31 December 1983

Summary

Over the past 2 years measures for improving the planned management system of agriculture were implemented in the CSR. They helped restore the dynamism of our agricultural production, while markedly reducing the material inputs and at the same time transforming the structure of our livestock production. This development helped us attain greater self-sufficiency in our food production and stabilized the supply of food for our domestic market.

Over the past 2 years (1982 and 1983) economic achievements of our agricultural organizations were affected by both the higher level of production and by the effects of the change in the system of planned management of agriculture implemented since 1 January 1982.

Measures adopted in the sector of economic mechanisms helped balance the profitability of the production of main agricultural products. Adjustments of procurement prices encouraged the growth of production in a socially desirable structure, mainly production in the cattle-raising sector. The implemented measures in their sum total were reflected in the major consolidation of the khozraschet and income situation of our agricultural organizations, which was one of the main objectives of the improved system of planned management in agriculture.

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GERMAN DEMOCRATIC REPUBLIC

ECONOMISTS ON PLANNING, ECONOMIC STIMULATION OF FOREIGN TRADE

East Berlin WIRTSCHAFTSWISSENSCHAFT in German Vol 32, Nov 84 pp 1684-1693

[Report by Annette Ebersbach: "Experiences and Tasks Relating to the Further Perfection of Planning and the Economic Stimulation of Foreign Trade for the Implementation of the Economic Strategy"]

[Text] On the occasion of the 30th anniversary of the higher educational facility for instruction and research in the field of socialist foreign trade, the foreign trade section at the Bruno Leuschner Advanced School of Economics, Berlin, organized a scholarly colloquium on the experiences and tasks relating to the further perfection of planning and the economic stimulation of foreign trade. Scholars and representatives from business life attended the colloquium.

Professor Dr Sieber, rector of the Bruno Leuschner Advanced School of Economics, opened the proceedings. His address emphasized that the results of the SED CC Conference of Social Scientists incorporate many important tasks for social scientists. The collection of the foreign trade section at the Berlin Advanced School for Economics will have to deal with them to respond to the vast challenges of the present and the future. The increasing import of foreign trade in the GDR's national economy and its growing interlinking are reflected in the main directions of ongoing research. These are

- Studies relating to basic theoretical problems of the perfection of the Marxist-Leninist reproduction doctrine
- Theoretical and practical issues concerning the interaction of foreign trade and economic growth in the transition to all-round intensive reproduction
- Issues of the perfection of management, planning and economic accounting in accordance with the requirements of intensification
- New theoretical and historical problems of the world revolutionary process.

Also affected are such important issues as the closer interaction of science, engineering, production and foreign trade as well as the utilization of the

benefits of socialist planning at combine level so as to achieve the greatest possible growth of exports and better export efficiency.

The basis of the colloquium was represented by hypotheses produced by a collective headed by Professor Dr Nitzsche and Professor Dr Schulmeister (both of the Berlin Advanced School for Economics). Continuing on from these hypotheses, Nitzsche's introductory remarks dealt with topical issues of planning the export structure at the transition to extensive intensification. It is one of the main tasks in this new stage of the realization of our economic strategy so to substantively and methodologically organize planning and stimulation as to make them tools for organizing and carrying out the process of comprehensive intensification. Central concerns are the more effective introduction of new scientific-technical knowledge to production and its greater economic efficiency up to and including salable exports--profitable in terms of foreign exchange--, in connection with the more flexible organization of the production and export structure and the assurance of technical-economic independence. Nitzsche furthermore indicated the following tasks:

1. Managing the dialectic between the accomplishment of present tasks, making sure of plan fulfillment and long-term foresight as well as definition of future tasks;
2. Securing the relationship between the flexibility and stability of the export structure as a basis for the greatest possible growth of export volumes and efficiency;
3. The planned assurance of technical-economic independence must also contribute to an increase in the exports of new technologies, processes and equipment;
4. Planning the export structure by function values requires greater mastery of the interaction with the planning of price development as well as foreign exchange relations.

Nitzsche emphasized that the criterion of the salability of products ranks high with respect to conception and decisionmaking relative to the development of the export structure. This requires the ongoing analysis of vital elements of the dynamics of demand, in particular with regard to:

- The direction and speed of the scientific-technological development of various products, their components and the technologies of their manufacture as per international criteria;
- Concrete development tasks and conditions for science and technology, investments, production and consumption in the partner countries and the competition on the capitalist world market.

The latter includes the ascertainment of qualitative demands on the commodities and of commercial terms. The foreign trade enterprises and foreign trade firms are specially responsible in this matter.

With reference to the question how planning may help to better handle the relationship between the necessary flexibility and stability of the export structure, Nitzsche described the following approaches to a solution, which need to be adopted in the planning process:

- More thorough substantive coordination (as far as product groups and main products) in the process of the coordination of five-year plans with the USSR and the other CEMA member countries, coupled with the greater involvement of combines in this process;
- The conception and planned organization of production structure suitable for use both for exports to socialist and nonsocialist countries as well as for the production and public demand of our own national economy;
- The enforcement of a planned renewal process of production assortments in conformity with scientific-technical development and the systematic introduction of new products, technologies and processes; in this respect greater coordination of the plans of combines with those of the component supplier industries is required;
- The flexible organization of combine and enterprise production assortments by the combination of basic machines and plant with add-on devices, the combination of processes, the development of component and spare part exports as well as exports of scientific-technological results and performances.

At the same time the speaker drew attention to the fact that it is imperative to exactly analyze and plan the financial dimensions, the profitability factors and their effect on foreign exchange relations.

The subsequent discussion agreed with the basic statements of the hypotheses and the introductory address. Starting with this assumption, an interesting exchange of opinions was conducted, in particular with respect to the following topics:

1. The reinforcement of long-range conceptual efforts for the development of the production and export structure;
2. Emphasizing export needs while planning the tasks for science and technology and the plan effective realization of the objectives fixed in the tasking workbooks;
3. Issues of the efficiency of exports and the measurement of efficiency;
4. Tasks related to the work with upper limits for industrial prices of new export products'
5. Possibilities and conditions for the further perfection of the planning of intangible foreign trade.

In connection with the further perfection of the planning and economic stimulation of foreign trade for the realization of the SED's economic strategy, Professor Dr. Froehlich (Central Institute for Socialist Management at the SED Central Committee) dealt with some basic issues of the determination of export efficiency. He started from the assumption that export profitability was moved even further to the center of combine management in pursuance of the decisions on the perfection of management, planning and economic accounting. This is due to the fact (among others) that export profitability significantly affects net profits, one of the four main indices of performance appraisal. Froehlich stressed that it is now more important than ever to be on top of the substantive message conveyed by export profitability, because this is the means to gain knowledge of export efficiency. He discussed the substance of export efficiency and rejected the opinion that it is to be described as a part of sales efficiency (see K. Steinitz, "Growing Efficiency by Intensively Expanded Reproduction," EINHEIT No 2/1984, p 138).

The discussion on the term "exchange effects" clearly showed that these effects do not apply only to performances in the exchange and circulation sphere in the narrower meaning. Other qualitative factors such as science and technology, materials and basic asset management, and labor productivity are also involved. In other words, many factors affect the export profitability of individual products: Product features, scientific-technological standard, usefulness, time factor, market period, the technology of production, the distribution of fixed costs on the production series, marketing methods (in particular with regard to foreign exchange price and foreign exchange management), cooperation processes and prices of components, the level of wages and of other costs by comparison with conditions in the main producer countries, materials use, natural conditions, and so on and so forth.

Due to the multitude of factors, a concrete analysis of the causes of greater or lesser export profitability in the combines (not only the foreign trade enterprises) is urgently needed. Such an analysis may offer significant pointers for the improvement of efficiency of both marketing and production. In this context Froehlich warned against overestimating the index figure "export profitability" for decisionmaking and explained that a particular export profitability was, so to speak, located in the field of tension between the past and the future.

In his contribution to the discussion, Dr Petzold (Ministry for Foreign Trade) talked about the decisions on the further perfection of the planning of foreign trade and economic stimulation. He mentioned the following first results and findings:

- The export efficacy of science and technology must become more perceptible in the performance process of combines. It will therefore be necessary to resolutely pursue the economic objectives on product development established in the tasking workbooks (for example improvement of export profitability, observance of upper price limits). In the same context, improvements will have to take place in the work of foreign

trade enterprises in connection with the drafting of the tasking workbooks (for example the estimate of likely export earnings).

- The performance appraisal of export oriented combines proceeds in consideration of the accomplishment of the tasks of foreign exchange management. This gives rise to important consequences for the combines with regard to the planning of production and marketing, namely to organize right from the start and manage these from the aspect of foreign exchange management also.

The measures decided, which involve the gradual change of enterprise prices as of 1 January 1984, and the new principles of industrial price formation create vital preconditions for an easier comparison of the profitability of export products on the basis of domestic prices. Nor does this procedure require new indices for the ascertainment of export profitability. It merely means that better work must be done with familiar and available indices.

Dr Weise (Friedrich-Schiller University, Jena) dealt with the question of measuring efficiency in the process of the performance analysis of combines and enterprises. The farthest reaching processing of the materials and the achievement of high export earnings at little import costs are of crucial importance for the performance growth of combines. These objectives must be effectively backed by skilled analyses and planning in the economic units. Analytical calculations from the net aspect, in particular, must provide important bases for independent conceptual work in the combines. One key issue is the inclusion of import expenditure. For the more effective use of imports, Weise proposes that "import adjusted export profitability indices" be calculated with respect especially to material intensive products, for example import adjusted R_E and D_E indices.

In addition he pointed out the possibility for ascertaining materials, volume and fund related export efficiency indices so as to more resolutely use the indices linked to embodied labor for the mobilization of economic reserves, in particular for international comparisons and long-term management and structure decisions.

Professor Dr Mann (Advanced School for Economics, Berlin) concentrated on two issues:

- a) How do domestic prices support an efficient foreign trade structure and foreign trade operations?
- b) How may domestic price formation be improved by the combines and foreign trade enterprises?

Support for an efficient foreign trade structure and operations by domestic price formation occurs in particular by planned industrial price changes and price fixing for new and further developed products. It is the chief objective of planned industrial price changes to secure the tendency to agreement of the price with the socially necessary expenditure of labor. To be guaranteed also is the unity of stability and flexibility of industrial

prices so as to respond to the dynamics of cost development and, at the same time, meet the demands of management, planning and economic accounting.

Mann emphasized that the agreement or disagreement of prices and value cannot be measured by the more or less pronounced divergence of enterprise costs from industrial prices. The industrial price conforms to national requirements if it approximately agrees with the socially necessary labor expenditure. As, however, the identity of the enterprise expenditure with the socially necessary expenditure in the respective enterprise is purely accidental, no conclusions about the quality of the prices can be drawn from the concrete profitability in any individual instance. It must therefore be noted that the price should serve as a measure for enterprise expenditure rather than enterprise expenditure as a measure of the correctness of prices.

The changes in industrial prices and industrial price formation for new products in effect since 1983/1984 as well as the introduction of the contribution to social funds also take into account the need to improve foreign trade efficiency. As regards industrial price formation, we now have a more emphatic orientation to cost reductions, and the price level of the new product is determined by its expenditure level plus an extra profit (see Price Order No 475 on Cost and Upper Price Limits of 14 April 1983, GESETZBLATT DER DDR, Part I No 12/1983 pp 131ff). The new feature consists in the provision that the upper price limit for all export products is derived from the planned foreign exchange earnings, taking into account the planned export profitability. These and other measures make a significant contribution to the improvement of foreign trade efficiency, because the more accurate ascertainment of domestic expenditure must be considered an important prerequisite for its reduction and the ascertainment of an optimum foreign trade structure. As early as the stage of preparation, foreign exchange prices must be incorporated in the considerations on the determination of efficiency requirements for the new products, in particular with respect to design and technology. This means greater responsibility for the foreign trade enterprises in matters industrial price formation and requires a much higher standard of price and market research.

Mann said that new criteria had been set for future price work, though many aspects still required substantive consideration and expansion. He drew attention to the following key issues: Determination of the extra profit, taking account of the standard achieved; expenditure appropriate organization of component prices as the prerequisite for the realistic appraisal of the efficiency of the final products; the accuracy to be achieved in the assessment of the future foreign exchange development of individual product assortments; the role of function value quantification for product development; the synchronization of price formation for new products with financial planning.

The reinforcement of long-range conceptual work on the development of the production and export structure was the main topic of the contributions to the discussion by C. Nitzsche (State Planning Commission), Dr Becker (Central Institute for Socialist Management at the SED Central Committee) and Dr Gloeckner (Carl Zeiss Jena Foreign Trade Enterprise). All of them stressed

that the resolute organization of the production, export and import structure--to more quickly secure the economic utilization of the latest scientific and technical findings--responds to the needs of the national economy, the general public and external markets, thereby effecting a greater efficiency and flexibility of the foreign trade intensive national economy as well as requiring a qualitatively challenging organization of planning, in particular long-term conceptual work in preparation of the five-year and annual plans.

C. Nitzsche pointed out that the conceptual preparation of the 1986-1990 Five-Year Plan represents a greater challenge to the combines due to the beginning of a new stage in the realization of the economic strategy.

The combines are increasingly involved in the preparation and implementation of the coordination of the 1986-1990 Five-Year Plan with the USSR and the other CEMA member countries. This requires the combines in the phase of conceptual preparation to thoroughly familiarize themselves with the new requirements and base their decisionmaking process on the future profile of production and exports on such criteria as appropriateness to demand and salability, in conjunction with the guarantee of the greatest possible efficiency.

Plan coordination with the various CEMA countries must be increasingly used to carry out the more efficient organization of international specialization and cooperation in production, taking into account the cost of transport in the various industries. That, however, is possible only provided the combines and foreign trade enterprise take the long view to determine the basic direction of their development.

In this meaning, C. Nitzsche said in conclusion, it is necessary to improve the standard and efficacy of long-term conceptual work, in particular at combine level, and adjust to the new requirements the synchronization of the volume and structure of material funds for exports between combines, foreign trade enterprises and balance organs.

In her contribution, Dr Becker indicated the necessary interaction between the long-range conceptual work of combines and the strategic-oriented work of the ministries and other state organs. Involved here, on the one hand, is the need for combines to take a more active part in suggesting nationally important decisions to the central state organs and, if necessary, provide documentation in greater depth. At the same time the active cooperation of the combines is imperative for the decisions to be taken from the national standpoint on the basic outlines of the production, export and import structure, the proportionality between prior and subsequent production stages, the main directions of science and technology and the main approaches to the intensification of production.

Becker also dealt with the criteria discussed on the conception and decisionmaking with regard to the organization of the structure of production, exports and imports.

Gloeckner discussed the problems and experiences of long-term conceptual work from the standpoint of a combine with its own foreign trade enterprise. Referring to the discussion, he said that the sections on conceptual planning in the "Order on the Planning of the National Economy" represent a substantive-methodological basis for independently at combine level working on the conception for future combine development. A uniformly mandatory skeleton directive on long-term conceptual work would not sufficiently take into account the specific features of various sectors and branches.

In defense of this standpoint, Gloeckner pointed to the positive experiences gained by the Carl Zeiss Jena Combine VEB with the conceptual work on the definition of the combine in the period 1986-1990 (currently work is proceeding on the conception of the combine's development in 1991-1995). In general, long-term conceptual work is a sign of the observance of own responsibility for the future development of the reproduction process in the respective sphere of responsibility.

G. Heimpold (Advanced School for Economics, Berlin) spoke on the enforcement of export requirements in the planning of the tasks of science and technology and the plan effective implementation of the objectives fixed in the tasking workbooks. He started with the assumption that keeping up with the international rate of innovation, in other words mastery of the time factor, has increasingly turned into a crucial factor for dynamic export growth, large market shares and the beneficial development of export profitability. To respond to the time factor means orienting our planning to objective courses of innovation processes determined by international processes and factors, their vital curves and market periods. The following consequences arise therefrom:

- The selection of the scientific-technological development policies to be adopted must be preceded by a sound analysis and forecast of the life cycles of these innovations. Starting with the analysis of the course of the international process of an innovation, an honest, uncompromising assessment of the scientific-technical and economic development standard achieved and achievable with the intended product and process innovation as compared with international standards.
- The exact qualitative and also quantitative analysis of the international course of an innovation process requires the creation of an adequate data base to improve the extent of knowledgeability of the combines with regard to international innovation processes.

These demands primarily affect the preliminaries of the actual plan decision.

For the better transfer to production of findings and results from science and technology, Heimpold proposed planning the development of the product structures of production and exports by means of a special plan part at combine level and in the unity of

- The introduction of newly developed products to production and exports,

- Continuing the production and export of particularly salable and export profitable products, as well as
- Discarding obsolete, poorly salable and unprofitable products.

At the same time, so-called prior measures should be provided for in this plan, dealing with those products which are in the stage of research, development or transfer and will become effective in subsequent years.

Gloeckner emphasized the role and concrete tasks of the foreign trade enterprises with respect to the definition, planning and realization of the tasks of science and technology. This applies to, for example, the definition of the sales possibilities and the foreign exchange prices presumably to be obtained, the drafting of a standpoint on the directions of scientific-technological development. Furthermore, the foreign trade enterprise is responsible for the timely marketing-side preparation of the sale of new products. Gloeckner proposed that, analogous to the regulations on research, development and production transfer, mandatory rules be introduced for the preparation and introduction of the new products to the market (M steps). Market introduction conceptions might provide the necessary tools.

In connection with the plan effective accomplishment of the objectives fixed in the tasking workbooks, various speakers stressed in the course of the discussion, that the economic parameters of the tasking workbooks needed to be fully included in the plan though, of course, this did not yet settle the extrapolation of the objectives in the tasking workbooks. Some speakers were altogether opposed to an extrapolation because, they said, this was usually accompanied by cuts in the projected economic results. Others favored extrapolation provided the main economic indices of the tasking workbook (production volume, exports to the socialist and nonsocialist monetary regions, foreign exchange profitability, quality parameters, scientific-technical standards) were observed and the ultimate goal was that of overfulfillment.

Dr Hahn (Advanced School for Economics, Berlin) dealt with the issue of the further perfection of the planning of the GDR's intangible foreign trade. She stated that satisfactory preconditions were present in the GDR for active participation in the international exchange of scientific-technological results and performances. It was particularly important for our own scientific-technological potential to be made even more export effective. Hahn considers the following the main tasks for the further perfection of the planning of foreign trade in this field:

- a) Incorporation of the export of intangible results and performances in the drafting of export strategy at the various management levels;
- b) Realization of the longer-term export strategy for scientific-technological results and performances within the scope of five-year and annual planning. At the central level, for example, this includes planning the export of scientific-technical results/performances in value volumes and by economic regions, object-concrete planning for scientific-

technological results and performances earmarked for fixed assets and, in exceptional instances, not so earmarked (for example with regard to the involvement of several export supplier enterprises, projects of great national importance).

Professor Dr Kohlert (Carl Schorlemmer Technical College, Leuna-Merseburg) dealt mainly with the following topics: The further perfection of combine collaboration in the deepening of socialist economic integration, the conception and preparation of measures for the improvement of export strength (in particular by more processing); the evolution and definition of future export structures; measures for the improvement of export profitability by advanced methods of operation on foreign markets; the utilization of the methods of socialist economic integration for emphasizing the intensification factors in the combine reproduction process; issues of the management and planning of foreign trade operations including the further improvement of cooperation between industrial combines, export enterprises and foreign trade enterprises.

In addition to these research assignments, Kohlert indicated the equally important task of training new cadres skilled in foreign trade and of providing further education of responsible personnel in industry. At present no "socialist foreign trade" course is projected for students of socialist factory management within the framework of obligatory basic instruction.

In his concluding address to the colloquium, Professor Dr Luft (director of the foreign trade section at the Advanced College for Economics, Berlin) thanked the attendants for the interesting and very useful discussion. In the course of a brief summing up, she listed the main results of the colloquium:

1. The theses and the discussion contributed to the scholarly generalization of experiences gathered by the GDR national economy since the Tenth SED Congress in changed internal and external conditions with regard to the organization of management, planning and economic stimulation. These experiences must enter the international scholarly discussion in a suitable manner and processed for the practical exchange of experiences among the CEMA countries.
2. The results of the discussion by scholars and factory floor representatives showed up the issues which require stronger emphasis with respect to scientific preparation. To be mentioned (among others) are the following:
 - The analysis and forecast of the GDR's external reproduction conditions, important for the planned organization of export and import structures, and knowledge of which is imperative for the assessment of the possible realization of our foreign trade objectives;
 - Further theoretical preparation so as to more accurately ascertain the demands arising on foreign trade from comprehensive intensification, the new stage of the economic strategy. Here we must focus on the

question how to organize foreign trade structures so as, in the conditions of the GDR's foreign trade intensive national economy, to achieve national proportions characteristic for intensively expanded reproduction.

3. In cooperation with other scientific institutions, we must find answers to the following questions:

- How may combines be even more effectively involved in international economic and scientific-technical cooperation as well as plan coordination?
- How can we make even more certain that anything benefiting the national economy (for instance greater responsiveness to changes in demand) also benefits the individual combine and individual enterprise?
- How may resolute orientation to developing demand, including response to specific wishes, be coupled with the production of large series?
- How may foreign trade enterprises better play their role in the uncompromising orientation of combine scientific-technical work to international standards?

4. The colloquium provided suggestions for the definition of training and further education of economists.

A thorough evaluation of the results of the colloquium is proceeding in connection with the further precise definition of the main directions of scientific efforts in the field of foreign trade theory in the period 1986-1990 and the extrapolation of plans for scientific cooperation with partners at home and abroad.

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HUNGARY

ROLE OF BONDS IN SOCIALIST ECONOMY VIEWED

Budapest PENZUGYI SZEMLE in Hungarian No 2, Feb 85 pp 123-129

[Article by Mrs Imre Suranyi and Dr Zsigmond Jarai: "Concerning Bonds"]

[Excerpts] Since the decrees went into effect, since there has been a possibility of issuing and trading in bonds, about 30 different bonds have been put on the market in Hungary, to a total value of more than 1.5 billion forints.

The success of bonds has been greater than expected. Only about half of the municipal bonds issued as an experiment prior to the appearance of the decrees found customers, so at that time the initial experiences seemed unfavorable. But the activity that followed later pretty much refuted these experiences and today it appears that bonds have become an irrevocable element of the Hungarian economy, built into the capital flow system.

Their appearance and existence are helping to solve one of the concomitants of our socialist economy, the old problem of slow capital flow.

With the narrowing of investment resources available to the economy and with the restrictive policy for investment it is ever more important to make the best possible use of the relatively little capital available, investing it in the best directions. In such a restrictive period it is increasingly difficult to satisfy the needs of the earlier "capital extensive" economic growth and there is a need to introduce new capital intensive forms. If the volume of investments cannot be increased then the only path which might lead to increasing the performance capability of the economy can only be a better selection than earlier, a faster and more efficient capital flow.

To a large extent our economy lacks mechanisms serving to withdraw capital from uneconomical activities and regrouping the resources thus withdrawn into economical activities. In recent years there has been a relaxation of a number of restrictions the existence of which definitely hindered regrouping, and a few new forms or tools aiding the flow have developed. It has become possible for enterprises to give credit to one another and transfer capital to one another, funds and little banks serving to accelerate capital flow have come into being, state capital allocation was introduced, at first with an

experimental character but now on an ever increasing scale, and recently the capital allocation possibilities of banks and enterprises have increased as well. Among the new forms of capital flow--under development just now--bonds, and in a broader sense the trade in securities--also in the process of unfolding--will serve a faster and more efficient flow of capital.

Bonds are only one of the various forms of capital flow available to the economy and only one form of the use of securities--one with unique characteristics. It would not be proper to overemphasize their significance or attach exaggerated expectations to their introduction and use. It must be seen clearly that we are talking about the use of a tool which could help to make economic processes more efficient, but it is not in itself enough to do this and its importance and significance can in no way be determining. Even in capitalist countries with the most developed capital markets the bond form is not too substantial in gathering together investment resources; in general the total annual issue of bonds is only a few percent higher than the annual investments. This means that entrepreneurs obtain only a few percent of their investment resources on the bond market. For us this ratio does not even reach one percent yet; the value of the bonds sold during 2 years is still less than one percent compared to annual investment expenditures.

Despite this relatively insignificant share it would not be correct to underestimate bonds. Experience thus far indicates unambiguously that there is utility in their use and a realistic possibility for their function in the Hungarian economy. It appears realistic that this form of capital flow will play a greater role in the future and thus may contribute to withdrawing capital from uneconomical areas, regrouping capital to the most dynamic areas, and thus contributing to the acceleration of economic growth and to increasing the performance capability of the economy.

One Form of Credit

In general, resources collected by the sale of bonds are used to realize investments, which raises the problem of the regulation of purchasing power. The question is: How does this relatively free resource acquisition possibility--issuing bonds--fit into the strict conditions for regulating investment-purchasing power? From this viewpoint, given the present ratios, bonds do not yet play a significant role, for such a tiny part of the purchasing power is generated by the sale of bonds that it is within the margin of error for planning and regulation. But it can be imagined that in the future the sale of bonds will receive much greater scope than today, and then economic regulation and planning will have to handle this tool also in some way. However, this will not represent any special difficulty if a truly banking regulation, ultimately bank of issue regulation, is realized in the granting of credit. Savings amassed in some way serve to purchase bonds, and this results in reducing the banking credit sources. If fewer savings are deposited with banks, then the banks have fewer possibilities for putting out money. Thus the effect of bonds on investment-purchasing power can and must be taken into consideration via changes in the bank deposit-credit ratio. If in the future the outlays of banks are linked better and more closely to the amount of deposits then the problem of purchasing power regulation will be

solved automatically, or a solution will be found by fitting it into monetary, bank of issue regulation.

One can experience lively interest on the part of enterprises in issuing bonds. Many enterprises are giving the bond market a try; often they are getting on the public bond market the resources needed to solve their most burning developmental problems.

In general, according to present regulations, the money collected by the sale of bonds is not cheap for the enterprises. Taking into consideration the usual 7-10-year term and the 11-15-percent interest those issuing them must often obtain 30-35-percent profitability with the investment financed by the sale of bonds in order to pay interest and repay the bonds. Profit must be used first to pay the interest, then an undistributed fund must be generated out of the remaining profit and out of amortization which is sufficient to cover bond repayment. Naturally, other sources generated at the enterprise can be used also for repayment and to pay interest. Still it is a realistic expectation that the investment financed by the sale of bonds will "produce" the money needed for its own repayment, and at least not reduce the other resources of the enterprise. These should become involved only in extraordinary situations.

Even when compared to the usual credit conditions one cannot call the money obtained by the sale of bonds cheap money. It is true that the 14 percent interest on bank credit is higher than the average bond interest, but the term for credits today is usually longer than the average term for bonds. So why the great interest in issuing bonds? This can be explained today primarily by the relatively narrow credit assumption possibilities of enterprises and by the narrow credit quotas.

According to the regulations any financial institution can request the right to organize the issuing of bonds, and according to the practice which has developed a number of banks are involved in such activities. The State Development Bank has participated in issuing or organizing the issue of about 70 percent of the bonds now circulating. The Hungarian National Bank, the Hungarian Foreign Trade Bank, the National Savings Bank and savings federations have already organized the issue of a number of bonds. The practices of the several banks and financial institutions differ, but there is no doubt that a significant task falls on the banks entrusted with the issue, or on the Ministry of Financial Affairs which does the authorizing in the case of public bonds, in regard to judging the reality of enterprise intentions. The banks must certainly study the security of interest payment and repayment, which requires a bank investigation, judgment and classification essentially equivalent to a credit judgment. In addition they must survey and become acquainted with the market from the viewpoint of what the chances are for selling the bonds to be issued.

In general the banks will undertake to organize the bond issue only if:

--the financial situation of the issuing enterprise is stable, its management reliable and if its business policy, enterprise leadership and profitability prospects can be judged good;

--the profitability which seems realistically attainable by the investment to be financed by the bonds is high, providing enough cover for interest and repayment;

--taking into consideration the uncertainty factors as well, the issuer offers other guarantees for repayment of the bonds (primarily having enough liquid assets or enterprise property which could be liquidated);

--the risk is relatively small, that is, the total value of the issue does not exceed 20-30 percent of the enterprise property;

--the conditions of issue and the market situation and "good will" of the issuing enterprise make possible the sale of the bonds among bond purchasers.

There is need for a basic screening investigation by the banks in the case of bonds to be purchased by enterprises and by private persons. In the case of the former the issuing enterprise alone vouches for interest repayment and repurchase with its entire property and income, but still no bank gladly gives "its name" to an action involving excessive uncertainty. The state vouches for repayment and for payment of the pledged interest in the case of bonds which can be purchased by private persons as well, but naturally both the issuing enterprise and the bank conducting the issue try to avoid the necessity of actually implementing the budgetary guarantee.

The unconditional state guarantee of public bonds prescribed in the regulations may offer excessive security to the purchasers, for in essence the owner of the bond risks nothing in this way. If the issuing enterprise cannot meet the obligations undertaken then the state guarantee goes into effect automatically and the state budget will pay instead of the enterprise. So the entire risk is assumed by the budget. Thus the bond comes closer to a savings deposit, the repayment of which is also guaranteed by the state, and the market status and reputation of the issuing enterprise lose much of their significance. Today, however, as long as strengthening trust in bonds is one of the most important conditions for spreading the bonds, it is certainly useful to retain the institution of the state guarantee. In the future, if the "position" of the bond strengthens adequately, it can be imagined that an increase in the assumption of risk by investors will justify a change in the guarantee system as well, which naturally cannot affect the guarantees pertaining to bonds issued earlier. In any case, it is probable that now the lively enthusiasm of the public for buying bonds can also be attributed to this.

At the same time the bond purchasing interest and inclination of enterprises and cooperatives has moderated. This derives from the fact that today the interest and goals of every enterprise are still more linked to their own growth and expansion and increasing their own production and they do not gladly invest their money in the growth of other undertakings. We can count on a growth in bond purchases by enterprises in the future if, in the wake of a further development of economic guidance and regulation, there is a development of the entrepreneurial spirit, thinking in terms of property (capital), so that the goal will not be expanding one's own capacity but rather that an investment--even elsewhere--should bring an ever greater yield.

Enthusiasm for purchasing bonds could be increased with other concessions in addition to the rate of interest. Some sort of extra service is tied to almost all of the enterprise bonds in circulation. For example, purchasers of gas bonds have an advantage in the course of being connected to the national natural gas pipeline network; purchasers of telephone bonds get telephones out of turn; owners of COMPORGAN and SZUV [Computer Technology and Management Organization Enterprise] bonds can get the computer technology programs prepared by the issuers free or at a favorable price.

There is less need for such special incentives on the public bond market. The determining role of interest rates is indicated by the initial mild interest of private individuals in the low interest experimental municipal bonds or the public gas bonds; with an improvement in the bonds' terms their interest increased to a gigantic degree. Today, bonds paying a favorable 11 percent annual interest with a term of 7-8 years are sold out virtually in hours after they are issued. The numbers of people standing in line for the bonds indicate that the faith of the public in this form of saving is increasing. On the other hand this quickly growing and very lively interest indicates that the public is eager to make investments in that money-owning stratum which is unambiguously interested in the most favorable investment of the money at its disposal.

It is an indication of the flexible change in public demand, adjusting to the bonds' conditions, that it was sometimes possible to sell the municipal bonds issued earlier, paying 5.5-7 percent and with 5-6-7 year terms, only with the aid of political agitation; about half of the public gas bonds issued, paying 7.5-9 percent, found buyers; the 30 million forint issue of bonds paying 9-10 percent has been sold already, although the sale took almost half a year; bonds paying an annual interest of 11 percent, on the other hand, are extraordinarily marketable.

A 2-figure interest rate is not too high if we consider that from the viewpoint of the issuer the bond represents a lasting hold on the money. The bond owners can freely buy and sell the bonds among themselves, but the issuer has to buy them back only according to the predetermined schedule. This very secure, relatively long-term hold on the money is certainly worth the 1-2-percent extra interest. The rate of interest which has developed is certainly favorable for the public, although actually what is involved is payment for a stable pledge of money. This becomes truly advantageous if there appears to be a realistic possibility of selling the bonds before expiration, thus if the bonds can be traded freely not only according to law but in actuality. In this case the owner can get to his money prior to expiration, at the current rate of exchange to be sure, thus assuming the risk of a possible rate of exchange loss. In this case the relatively high interest rate represents a payment for this risk.

Transferability belongs to the essence of a bond; this is one of its most characteristic properties which distinguishes it from other forms of deposit. According to the Hungarian regulations, in general bonds can also be freely bought and sold. At first, the institutional conditions for this buying and selling were lacking, but even so a good number of enterprise and public bonds have changed owners already. Enterprises have bought and sold bonds via the

banks and private individuals have done so among each other. This trade was not significant, but nevertheless it seemed necessary to create the institutional possibility. As the first among the financial institutions the State Development Bank undertook in September 1984 to aid institutionally both the enterprise and public trade. At the AFB [State Development Bank] they deal with the buying and selling of bonds being traded throughout Hungary, independent of which enterprise was the issuer or through which financial institution the issue was conducted.

Considering that it is not the goal of the AFB to invest significant sums in the purchase of bonds, the bank is buying bonds only in order to resell them. The purchase and sale prices are established according to the current supply and demand relationships. The rate of exchange for bonds which are little sought after, with unfavorable conditions, low interest rates or long expiration terms may go below the nominal value while the rate of exchange for sought after bonds may rise above the nominal value by a few percent. Considering the low demand, the AFB will take over enterprise bonds only on consignment; the enterprise intending to sell the bonds can get its money only if the bank finds a customer for the bonds.

The secondary bond trade has not been very lively in the last few months, which is natural considering that the bond owners originally counted on having the money tied up for 7-10 years in general and barely 6 months to a year have elapsed since their purchase, so in general they are not inclined to sell their bonds. The trade which today has primarily theoretical significance will certainly have a greater role in the future; and the supply and demand will certainly increase if there are more bonds in circulation.

The 2 years which have elapsed since the creation of the legal conditions for bonds are too brief for it to be possible to judge from the viewpoint of economic history the role this form of capital flow plays in a socialist financial system. But from what has gone before it can be seen well that the bond is a useful addition to the arsenal of capital flow and it represents an invigorating element precisely at the point where it paves the way for the most economical undertakings. Allocation type regulation opens up a broad range of concrete possibilities for issuing bonds and this range is far from being exhausted today. The continued evaluation of experiences with concomitant public attention may help spread the bonds so that they can play the role intended for them in the flow of assets between enterprises in addition to the regrouping of income between the private sphere and the enterprises. This article is intended as a contribution to this as well.

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HUNGARY

SITUATION OF ENTERPRISE MANAGERS SURVEYED

Budapest NEPSZABADSAG in Hungarian 26, 27, 28 Feb 85

[Article by Katalin Bossanyi: "Industry's Directors, Facing Election"]

[26 Feb 84 p 6]

[Text] 1. The 323 Chief Executives

There are 323 chief executives heading the enterprises that are under the direct supervision of the Ministry of Industry; in other words, Hungary's large-scale industry. (The trusts and state enterprises belong here.) It would be possible to cite 323 different opinions regarding the assessment of these chief executives. Some people see them as practicing reformers, while others blame specifically these chief executives for the faltering of the reform process. Some people detect petty monarchs among them, while others see them as officials caught in the middle between the conflicting interests of the central agencies and the workers.

What are industry's directors really like? Their realistic assessment is especially important now, at the time of changing over to the new forms of management. Besides brief sketches of more successful careers and ones larded with failures, our series will dwell also on the contradictions in the directors' appointment, evaluation and incentives. We will present the experience to date with the system of appointing directors on the basis of announcing the vacancies and inviting applications for the posts; the expectations in conjunction with the establishment of enterprise councils and the election of directors; and the resulting tasks in the area of labor law and the safeguarding of interest.

Enterprise independence and a manager-type chief executive are related concepts. But are there such chief executives? Are the directors able to make use of their greater independence? Are they capable of changing step and methods, of catching up with their competitors also in knowledge and managerial

skills, and of adjusting to the requirements of the market? All this posed a great dilemma at the time of the economic reform's introduction.

Sixteen years later, these questions are still timely. With the reservation, of course, that all those who surged ahead and stopped short time and again, but managed nonetheless to survive the past 1.5 decades as directors, although at the cost of much personal and professional struggle, are now able to look back and ask: Were the economic environment's development and the central agencies' activity sufficiently consistent in encouraging the process of becoming a manager?

But let us stick to the basic question. Statistics, too, can provide one kind of answer to it, on the basis of the battles won. For although there have been casualties, the overwhelming majority of the directors won these economic battles.

Data From Personnel Files

There are 301 men and 22 women among the directors or directors general currently under the direct supervision of the Ministry of Industry. The directors' age pyramid is rather steep even today. In industry there is no chief executive under 30. The proportion of directors in the 40 to 50 age group is 29.3 percent; 63.5 percent are in the 50 to 60 age group; and the rest are past retirement age. The data on education are likewise noteworthy. Six of the chief executives completed only the eight grades; 12.5 percent completed secondary school; 15.1 percent are college graduates; and 70.6 percent have university diplomas. It is peculiar that 70 percent are engineers; and that there are few graduate economists, only 15 percent. The proportion of those who have two diplomas is likewise 15 percent. Ten percent hold scientific degrees, and 25 percent have advanced political education. Few speak foreign languages: only 50 chief executives have passed the proficiency examination in one foreign language, and 13 have passed it in two foreign languages. The largest number of chief executives with a university education is working in the chemical industry and the power industry; the smallest number, in light industry.

So much about the summarized personnel data. The enterprises' balance sheets, the central agencies, and time will evaluate the directors' performance. But how do the directors themselves view their careers, successes and failures? Let us see some examples. In full awareness of the possibility that debating partners and superiors might tell the story of the directors' careers and tensions differently, emphasizing other truths as well.

(For instance, a crisis manager.) Istvan Bihari (57 years old) is director general of Chinoin. He graduated from ELTE [Lorand Eotvos University], wanted to become a research chemist, but was destined to serve as a professional army officer for a few years. Thereafter he was chief executive of various enterprises in the chemical industry, serving 6- to 7-year stints in each. He was always assigned where there was some trouble, and drastic measures were needed to restore order. Regarding his professional life, he believes it is good if

the chief executive is compelled to make course corrections in his career from time to time. And it also helps to make him innovative if he is not assigned to a post where he has everything made. His comment on turning Chinoïn around quickly, in not quite three years, was as follows:

[Bihari] This could be termed a success, but we must strive for more. Because up to now we have brought out of this enterprise only what already existed in it, albeit latently. We are now laying the foundation for achieving more. But there will be tangible results only in 4 or 5 years from now. Of course, only if the enterprise's strategy proves stronger than the changing regulators.

[Question] What typical management disputes have you experienced in the course of your career?

[Bihari] Back in the early 1970's, my then superior did not agree with me on a professional question. I wanted to expand also our commercial activity, but that was considered something too novel at that time, and my proposal was rejected. Since then I have had mostly disputes with the territorial agencies over personnel matters. And last year I became involved in an important conflict over the import restrictions that undeservedly upstaged Chinoïn and were also harming the national economy, by curtailing the Agrochemical Agreement, for example. It is regrettable that professional arguments and the play of market forces are not enough to settle such matters. Personal connections occasionally prove to be more effective. When I see such two-faced behavior on the part of a central agency, I ask myself: How long can enterprise independence last?

(For instance, a successful loser.) Otto Zalatnay (55 years old) is director general of the Hungarian Cloth Factory (Magyar Posztogyar). He joined the factory in Csepel in 1949, as a time and motion expert. While working, he completed his studies at Karl Marx University of Economic Sciences, obtained his doctorate, was promoted from department chief to economic director, and subsequently to chief executive.

[Zalatnay] It affected me deeply and made me sick when we started operating at a loss after 1983. Aside from a sense of personal failure, I felt frustrated professionally as well. For this factory had been operating in the black until, in the national economy's interest, we began to export to capitalist countries more intensively, which was less profitable for the enterprise.

[Question] You objected to the enterprise's reorganization. Why?

[Answer] Because I knew that I would be able to retain the support of my socioeconomic environment and the workers' confidence only if we extricate ourselves from the mess through our own efforts. That is why I decided to sell off a part of our main factory, in addition to other loss-reducing measures. This succeeded, although at the cost of many internal and external conflicts. Our profit is still small, but there are new ventures that can gradually improve our efficiency.

Successes, Conflicts

(For instance, one who endures conflicts.) Istvan Martos (59 years old), the director general of the Medicor Works (Medicor Muvek) who is well known also internationally, hardly needs any introduction.

An engineer with two diplomas, he has been working at the enterprise since 1957. As his greatest achievement he regards his ability to strengthen during the past 1.5 decades the enterprise's readiness to innovate, beginning with the successful preliminary "testing" of the reform, through the development of the enterprise's organization for international marketing, to the new organizational and incentive solutions that are now being introduced. As the chief executive of a large enterprise, he has built a personal reputation outside industry as well. For this moral capital, he believes, he can thank his ability to endure conflicts well. Or as he put it, one should not always be too loyal when such loyalty is not warranted, even though it might seem useful in the short run.

[Question] And to what are you unable to resign yourself?

[Martos] To the fact that economic regulation, despite all the protestations to the contrary, retains its base-period approach and continues to favor the average enterprise whose performance is mediocre. And that informal contacts may count more than the economic results.

(For instance, one who means well.) Gabor Goloncser (54 years old), a one-time blue-collar worker, is director general of HAFE [Driving Mechanism and Paint-Spraying Equipment Factory]. As a mechanical engineer specializing in farm machinery, he was director of several farm machinery enterprises, including the one in Mosonmagyarovar. What he regards as the most fruitful period of his career coincided with the unfolding of the economic reform: his enterprise underwent rapid growth, and he made good use of his independence. In 1974 he was appointed director general of the Farm Machinery Trust (Mezogepetroszt) and suddenly found himself in an entirely different environment.

[Goloncser] At that time, as chief executive, I did not notice any faltering of the economic reform. All I saw was that they were not letting the farm machinery industry develop. Therefore I did everything in my power to "ferry over" this industry from under the supervision of MEM [Ministry of Agriculture and Food] to that of the one-time KGM [Ministry of Metallurgy and Machine Industry]. When this succeeded, I made very many enemies. And in top of all this, now under KGM supervision, I wanted to concentrate the scattered organization of the farm machinery industry by selling off the underutilized plants. When I saw that passions were mounting around me, I requested the minister to reassign me. But the ministry felt that I had circumvented official channels by bypassing the personnel department and, as punishment of sorts, transferred me as chief executive to HAFE, which likewise was in a muddle and plagued by personnel and organizational contradictions. Here it took me years to restore unified management, and to line up the entire team in the same direction.

(For instance, a daredevil.) Adam Angyal (41 years old) is director general of the Hungarian Shipyard and Crane Factory (Magyar Hajo- es Darugyar). His professional career is straight as an arrow. After graduating from Karl Marx University of Economic Sciences, he began working for the shipyard, advancing to department chief and recently, in a big leap, to director general. Qualifications aside, for his appointment he can thank mainly his predecessor, Janos Szep, who foresaw that, in the increasingly more difficult marketing situation, the enterprise would need an economist rather than a technical man as its chief executive, one who was bold and blunt.

[Angyal] I do not find that the freedom of movement of the large enterprises and their chief executives is limited. All you have to do is to know the rules of the game and, on the basis of this knowledge, broaden the opportunities for entrepreneurship, anticipating the market and the changes in regulation as well. We rarely go to the ministry, and do not bother the other central agencies much either. All we ask in exchange is that they refrain from interfering in our business. And when they do want to help, they should do so more unambiguously. For example, the "subsidy" they are now promising us to maintain a part of our export, in the interest of the national economy, would keep us from starving but would not be enough to live on, and therefore it cannot serve as any guide for the enterprise. This too can be a sort of standpoint on the part of the central agency. But then they should let us negotiate the prices directly.

Picture More Favorable

These career sketches are merely fragments. A more comprehensive--and therefore more objective--analysis can be obtained from the research that the Institute of Economic Sciences conducted to investigate the expansion and limits of the market processes. In the course of this research, 156 chief executives were interviewed about their professional careers. This is what Andras B. Hegedus, the sociologist, has to say about these interviews:

"Analysis of their professional careers presents, I believe, a more favorable picture of the chief executives than the picture that professional circles and public opinion have formed of the directors. The progress, of course, is indeed very relative. But today in Hungary these chief executives are nonetheless managers to the extent that the market is a market."

Thus spake the sociologist. But to this we might add that the directors, too, have a role in shaping the extent to which the market is a market.

[27 Feb 85 p 6]

[Text] 2. In the Maze of Incentives

How much does a director earn? How is his performance evaluated? Is he able to represent the interests of his enterprise, and perhaps gain advantages for it, also by means other than economic methods?

It was long held that such questions were tabu, and that it was bad manners to inquire about the chief executives' incomes. Out of puritanism? Or out of

false modesty? A bit of both obviously played a role in this. But the fact seems more to the point that the chief executive's incentive is more than simply the question of motivating the directors. Something else is also involved here: actually the daily exercise of shared power, and the interpretation of the scope of economic activity and entrepreneurship. A noteworthy study published recently by the Fiscal Research Institute, for example, describes this process. The investigation conducted by staff member Miklos Polgar reveals, among other things, that the questions of regulating the chief executive's incentive have become one of the combat zones in the debates on the system of economic management.

In the Combat Zone

Let us begin the historical review with the 1968 economic reform's basic principles, which specified that the directors' economic incentives must be closely linked--mainly through a high variable wage component--to the performance of the collectives they head. But the ratios of the variable wage component had to be modified already in 1969 and 1970, more for ideological than economic reasons. The debate at that time erupted over high incomes at small organizations, mainly in the industrial cooperatives. And although it was established subsequently that these accusations--except in a few conspicuous cases--were unfounded, the consequences of the changes at that time remained in effect. Regulation became even more rigid in the first third of the 1970's. The enterprises were assigned to categories mainly on the basis of size, the number of employees, the value of fixed capital, the number of plants, and territorial location. Increasingly these characteristics and the "good relations" with the central agencies, rather than the attained level of efficiency, determined the chief executives' incomes. The situation changed as of 1976 in that comprehensive premiums were introduced, for which an exceptional variety of conditions had to be met to qualify. This tied the directors even more closely to the ministries and reinforced the role of personal contacts and subjective evaluation. Regulation was modernized somewhat after 1980, at the cost of various compromises. But the urgent reality that good managers must receive above-average pay based on a long-term incentive, whereas inefficient managers should be shed as soon as possible, was never put into words, until quite recently.

We again cite statistics as proof. In 1968, enterprise directors earned 3.2 times more than industrial workers. This ratio dropped to 2.6 by 1975, and to 2.3 by 1983. During this time the annual rates of increase in the directors' basic salaries lagged 4 to 5 percentage points behind the raises their subordinates were getting.

But let us come back to the present. There is now more or less a general consensus on the need to pay the chief executives better. Or more accurately stated: society seems willing to accept high incomes, provided the performance behind them is perceptible to everyone. But society becomes intolerant and suspicious when it sees no meaningful difference between the incomes of the chief executives of prospering and less efficient enterprises, and--since the incomes at both levels are related--between the incomes of their workers as well. And in consequence of all this, performance evaluation of both the chief executive and the enterprise becomes incidental and subjective.

But how do the persons directly concerned view all this?

Lajos Szabo, director general of the 4 April Machine Industry Works (Aprilis 4 Gepipari Muvek): The chief executive is entitled to a special premium when the enterprise undertakes to export in excess of the plan. But if this export is not sufficiently profitable, there is less profit, which affects the entire enterprise's future. For this very reason, I will not sacrifice our future interests for our current--or personal, if you wish--incentive, and we will undertake only tasks that are economical.

Jozsef Meleghegyi, director general of the Elzett Works (Elzett Muvek): When I headed the smaller but prosperous FORCON [expansion unknown], I had the honor of being transferred as chief executive to the bigger but ailing Elzett, with instructions to turn it around. Naturally, I accepted the appointment and immediately lost 27,000 forints. That would have been my semiannual premium at my previous workplace. Last year, on the basis of erroneous information, 40 percent of my premium was withheld. At the same time, the ministry submitted my name for a government award.

Istvan Bihari, director general of Chinoim: Let us not beat about the bush: a bad chief executive will not become better merely for being paid more, and good chief executives will not abandon their principles and goals even if their pay is low. And those who evaluate our performance know this very well! This is why I regard as moral turpitude the manner in which chief executives are being paid.

Chief Executives' Incomes

In response to this, we were told at the State Office of Wages and Labor Affairs that the schedule of basic salaries has been modified as of 1984. For example, the director general of an enterprise that has a large export and is in the advanced category may earn from 9,500 to 19,500 forints [a month], while the basic salary of the chief executive of a smaller enterprise in category B may range from 5,700 to 15,500 forints.

Since 5 percent of the directors now have basic salaries under 10,000 forints, 36 percent get 12,000 to 14,000 forints, and only 1.6 percent have basic salaries higher than 17,000 forints, one might justifiably ask why is their pay so miserly. After all, the ministry only sets the amount of the salary, and the enterprise itself must earn the money to pay it.

In the opinion of Sandor Major, chief of the Main Department of Personnel at the Ministry of Industry, the views on these questions have undergone a significant change in recent years. After the merger of the three industrial ministries, the department attempted first of all to narrow the substantial differences that had existed in the directors' basic salaries by industries and sectors, based on considerations of prestige, independently of enterprise performance. And then last year and this year the directors' basic salaries were raised by 10 to 12 percent, in a differentiated manner, based on the enterprises' annual activity, fulfillment of the export plans, and the directors' style of management.

[Question] What other income may a director have?

[Major] Depending of the profitability of their enterprise, directors have been able to get up to now an annual profit-linked premium equal to at most 40 percent of their [annual] basic salary. We approved the comprehensive premiums that could go as high as 20 percent of basic salary, and the Ministry of Foreign Trade gave the export premiums. But the Ministry of Industry has a separate economic fund from which it can reward the chief executives' actions that are advantageous from the viewpoint of industrial policy. Recently, for example, the chief executive of the National Petroleum and Gas Industry Trust (Orszagos Koolaj- es Gazipari Troszt) received a premium from this fund, for his proposal regarding organizational development.

[Question] How are the chief executives evaluated of the enterprises that are operating at a loss or are short of assets?

[Major] Parallel with holding a comprehensive supervisory audit, we reduce or entirely withhold the premium when an enterprise consistently operates at low efficiency or a loss. Last year this happened in six instances. But if it can be demonstrated that the difficult situation can be attributed basically to objective causes and not to the chief executive's ineptitude, we conclude a separate contract with him, to strengthen his sense of security and to give him more motivation.

Such evaluation cannot be free of subjective elements, nor can it eliminate the much criticized base-period approach when reviewing the directors' performance. But this is not the fault of the Ministry of Industry. To wit, the decree of the Council of Ministers that regulates personnel work was promulgated in 1974, and its provisions by now are rather obsolete: the decree fails to take into consideration the changes since then in the enterprises' independence and the conditions of their operation. It suggests a peculiar, paternalistic relationship even today, one that manifests itself particularly in the evaluation of the chief executives' performance once every four years.

And if we add to this that often the additional requirements set for a chief executive are conveyed to him only orally, and that his personal contacts and the territorial or social importance of the organization he heads also are instrumental in the evaluation of his performance, we have already arrived at one of the reasons for chief executive behavior that is called lobbying. This is again something that one does not speak of, but it does exist nonetheless. The ministry's personnel chief summed this up succinctly as follows: "You can take away the enterprises' Mercedes limousines, but the personal connections still remain."

As to why the directors need such connections becomes clearly evident from an OVK [National Management Training Center] study that again provides much food for thought. As a part of a broader research project, main department chief Pal Boday investigated the differences in the requirements that the supervising agencies and the social organs set for enterprise chief executives. It turns out that the ministries' most important "expectation" is that the chief

executives fulfill at all times whatever the supervising agencies require of them; the attainment of economic results ranks only second. The party organs' preferential requirement is public activity and political education. And the trade unions rate the assertion of industrial democracy the highest. The only thing common to the three different sets of requirements is that everyone "expects" good personal relations! At the same time the research also pointed out that the requirements the chief executives set for themselves rank quite differently. What they would like most of all is that their socioeconomic environment rate them uniformly on the basis of the enterprises' results.

There is, of course, also another side to the coin. For example, while we recognize in general that the structure of society, and within it of the economy, is complex, we look on with incomprehension when a large enterprise, industry group or area attempts to assert its different interests. Bela Novak, director general of the Csepel Automobile Factory (Csepel Autogyar), expressed this from the large enterprise's viewpoint as follows: "So long as it is not possible to assert the enterprise's interests effectively enough by economic means, on the basis of our achieved results, I will attempt to use the connections I established in the course of my previous work within the party apparatus, and also the additional sources of information to which I have access as a deputy of the National Assembly. Not for my own benefit, but solely for the benefit of the enterprise." Which is acceptable, with this reservation.

Already 'Internally' Controlled

Ferenc Nemes, OVK scientific director, interprets all this as follows: "We find that the rather one-sided method of selecting chief executives up to now, which therefore allows also counterselection, may contribute to lobbying. A contributing factor in the case of an area, for example, may be the paucity of resources or mistakes in their allocation. But more important is the fact that the chief executives' incentive, freedom of action, and pressure to perform are influenced not only by the market, by competition."

The OVK has been investigating for some time the development of chief executive behavior. It has found that earlier some of the chief executives in Hungary were "externally controlled," to borrow a concept from sociology; in other words, they were the extremely accomodating types who relied on personal connections. But today--specifically under the influence of the changes in the economic environment--"internally controlled" chief executive behavior is the more common. The behavior of the chief executives whose typical character traits are initiative, inventiveness, purposefulness and independence.

[28 Feb 85 p 6]

[Text] 3. Competition for Equal Opportunity

"Industrial enterprise, headquartered in Budapest, invites applications for the post of economic director." "The Hungarian Scientific and Technical Applications Association invites applications for the post of director."

Ads similar to the ones above quoted from HETI VILAGGAZDASAG have been encountered more frequently during the past two years. Decree of the Council of

Ministers No 1048/82 has authorized the ministries to delegate to the chief executives the exercise of the employer's rights in relation to the chief executives' deputies. And it has also authorized the founding agencies to fill vacancies for chief executives through competition, instead of one-sided appointment as in the past, and to grant commissions for specific tasks and a definite period of time.

Experimental Stage

This decision, the introduction of competitions for vacancies, has been the first experiment with the revolutionary changes that the new forms of enterprise management are promising in the selection, replacement and changing of chief executives, and in formulating and controlling the requirements set for them. Let us examine these changes.

In late 1983, the minister of industry appointed Lajos Szabo (46 years old) as director general of the 4 April Machine Industry Works, from among six applicants. Earlier the chemical-industry mechanical engineer had been chief executive of other enterprises in the same field, and from 1972 to 1978 he worked in the Ministry of Metallurgy and Machine Industry on the long-range development of the production of equipment for the power and chemical industries. Next he became technical director of the 4 April Machine Industry Works, and then acting director general when the previous chief executive died.

[Question] Were you sure to win when you entered the competition?

[Szabo] Not entirely. But I did regard the invitation to submit applications as somewhat perfunctory, because I was the top-ranking candidate in the ministry's plan for cadre development. Among the applicants, I was the only one with experience as a chief executive. In addition, I felt that I was definitely at an advantage on home ground. I could not help but win! Or if I was passed over, that would also be criticism of my past performance.

[Question] Was also the manner perfunctory in which the competition was administered?

[Szabo] Partially. Actually each applicant was required to submit only a detailed professional curriculum vitae. In spite of this, I prepared and submitted also a detailed concept of the enterprise's development. So that its principal points would be included in my commission.

[Question] Do you expect also the enterprise council, which will be formed this year, to confirm your commission?

[Szabo] I hope so. After all, the enterprise is strong economically, and also earnings at the enterprise are above average. Furthermore, we--with the ministry's help--were the first ones in industry to convert all our factory units into subsidiaries. This organizational development itself was based on collective decisions. But quite apart from this, my method is to try to persuade my collaborators of what I want, and to decide only after talking with them. From the central agencies and the ministry I have never requested unprincipled support. Then what have I to fear now?

Attila Lorinczi (42 years old) was appointed as director general of the Lang Machine Factory (Lang Gepgyar) from among 16 applicants, likewise in 1983. He graduated as a mechanical engineer in Leningrad, and worked subsequently for the Factory and Machinery Installation Enterprise (Gyar- es Gepszerelo Vallalat). Among other things, he directed the installation of power plants in the GDR. For five years he was the minister's commissioner at the Paks Nuclear Power Plant (Paksi Atomeromu). And then he applied for the post of chief executive at Lang.

[Lorinczi] I thought I was entering the competition with a good chance to win. Even though as an outsider, I knew the enterprise through my previous assignments. I was aware of the enterprise's difficult situation, but I felt confident that I would be able to cope with the task. But no one asked me in advance to outline my ideas.

[Question] One of your first, economically warranted measures was to make comprehensive changes in management positions.

[Lorinczi] This was one the tasks that the ministry set for me. So far we have invited applications for 13 positions, ranging from main department chief to deputy director. Therefore the jury comprised, in addition to representatives of the enterprise quadrangle [chief executive, party secretary, trade-union secretary, and KISZ secretary] and the personnel chief, also two blue-collar workers, and two invited outside experts. The jury screened and voted, but I reserved for myself the right to decide. It is noteworthy that although the competitions were open, in the case of my deputies, for example, we elected only one outsider, a highly regarded young expert, for the post of commercial director. All the others were inside applicants whom the collective knew well.

[Question] The Lang Machine Factory is now in an even more difficult situation financially. Knowing this, would you apply for the post of director general even now, and would you accept the appointment?

[Lorinczi] Yes, I would. Provided I am not called to account for tasks other than the ones specified in my appointment, and I am not penalized for the mistakes that the previous management committed, but the consequences of which fall partially on me as well.

[Question] The enterprise council will be formed this year. Will it elect you?

[Lorinczi] At the present time, it probably would. But if I am not able to turn the enterprise around in a year or two, due either to my own weakness or to external reasons, it is certain that I will be dismissed. But this is a risk that I must take.

These were two of the opinions among the twenty. For the Ministry of Industry invited applications during the past two years for that many chief executive positions that became vacant for various reasons. Yet the rate of change in chief executives was much higher.

"We wish to apply the principles of continuity and gradualism," claims Jozsef Fischer, chief of the ministry's personnel department. "We as well as the applicants must learn this method. And, last but not least, because also the socioeconomic environment is willing to accept only gradually, amidst many new conflicts, the general application of this new method of choosing chief executives."

Competition Among Applicants

There obviously is much truth in this. For example, because there still were "natural replacements" at many of the enterprises, and thus it would have been perfunctory to invite applications. But it was also found that the territorial social organs already had their "candidate," especially in the case of larger enterprises, and these organs would have objected from the very outset to filling the positions through competition.

During the two years, within the Ministry of Industry the method of filling vacancies by competition, and the work of the juries have meaningfully changed, coming closer to the realities. At first, yielding to the old conditioned reflexes, the ministry formulated the criteria for the competitions only in general. Today the applicants are required to submit real programs of what they would do as chief executives, and these programs are geared to the specifics of the enterprises. Initially the juries consisted of ministry officials and representatives of the territorial party and trade-union committees. But the expediency of having broader juries was soon recognized. In the competition for the post of director of the Power Plant and Power Network Designing Enterprise (Eromu- es Halozattervezo Vallalat), for example, the jury foreman was the chief executive of the enterprise's largest customer, the MVMT [Hungarian Power Plants Trust], and the successful but retiring former director also participated in reviewing the applications.

[Fischer] What surprised me initially was the wide circle of applicants. There were 127 applicants in the 11 competitions held the first year, and 64 applicants in the nine competitions last year. Admittedly, there were hardly any women among the applicants. The candidates appear to be the most enterprising in Budapest. There is much less "movement" in the provinces. It is interesting that the number of applicants depends not only on whether the enterprise is economically sound or weak. More decisive factors are the enterprise's size and territorial location, and perhaps the political importance of the organization. And it is likewise no accident that the second line of senior managers, with a good chance of winning, is barely moving, for fear of losing face.

[Question] What general conclusions may be drawn from your experience?

[Fischer] So far as our work is concerned, we need to make the hiring interviews more purposeful, to formulate the requirements more precisely, and to make the evaluation of the entire process more objective. And so far as the applicants are concerned, we should strive to ensure that they start with equal opportunity. Admittedly, this is not only a question of supervisory work, but of social democracy as well.

It will be worthwhile to ponder a bit over this interjected remark. What we expect first of all from the system of filling vacancies for chief executives by inviting applications is that it provide more democratic and more open advancement, in contrast to the previous, more rigid and hierarchic method that harbored also many counterselective effects. In other words, let there be equal opportunity on the scale of entire society. Let anyone be able to try his hand at being chief executive who--in full awareness of the well-known requirements--feels that he has the necessary knowledge, ability and endurance. But the experience of the recent--although admittedly very brief--period leads us to conclude that this requirement is still being met ambiguously.

Proportions of Replacement

Why? Because inside applicants have the best chance of succeeding from the very outset. Human nature being what it is, we are more inclined to accept the worse applicant that we know, rather than a dark horse, no matter how much better he may seem. The only exception is when the enterprise is on the verge of bankruptcy. But the inside applicant has an advantage also because he has essential inside knowledge about the organization--he knows, for example, the internal balance of power, who is on whose side and against whom--knowledge that an outsider will find difficult to acquire. The outside applicant must prepare a progressive and feasible program, but for this--over and above the general data and trends--he usually does not get the necessary information from his prospective enterprise. It is difficult for him to obtain this information from anywhere else, because in Hungary the enterprises' balance sheets are not made public. And it is not in the enterprises' interest to disclose their true situation in its entire depth, to "reveal" themselves. Among other reasons, because the applicants are unknown to them, and they might have to inform a representative of their competition about their plans and latest methods of doing business, which could then be used against them.

The situation of outside applicants is rendered more difficult also because doubt might be cast on their evaluation if they fail to get the job. Their immediate and wider environment might consider this as failure, partially out of envy mingled with spite, and due partially to a lack of understanding of competition and market forces.

The social organs and also press publicity, for example, must definitely strive to dampen these side effects. For within two years, with the gradual introduction of the new forms of management, the collectives will have to confirm or reject 80 percent of the chief executives in industry: it will be mandatory to hold open competitions. And if this new method of choosing chief executives is to become not a hotbed of manipulation and of interpenetration based on personal connections, but a process of comprehensive economic and social democratization that conforms to our objectives and helps to make production more effective, then we must learn to compete prudently, to judge the applicants objectively and, if necessary, to withdraw from the competition without prejudice on either side.

At the same time, it will be worthwhile to consider also the proportions. It is not at all certain that a competition should be held for every vacancy!

On this issue, too, it would be advisable to let enterprise independence assert itself in practice. Merely one example for illustration: The prominent foreign firms, be they state-owned or privately owned, usually solve internally the problem of finding successors for their chief executives. And only if this is not feasible do they invite applications for the position.

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HUNGARY

ROUNDTABLE ON BENEFITS OF AGRICULTURAL MACHINE FACTORIES

Budapest NEPSZABADSAG in Hungarian 9 Feb 85 p 5

[Interview with Adolf Federer, Laszlo Sandorfi, Ferenc Szabo, Andras Sziraki, Gyorgy Szabo and Laszlo Szorenyi by NEPSZABADSAG editor Katalin Bossanyi]

[Text] The new concept of our industrial policy categorizes the manufacturing of agricultural and food processing machinery into those industrial sectors which are developing faster than the average, and will be competitive in the long run. The results of the last couple of years and the market previews of the next future are equally supportive of this concept. Last year the enterprises, which form part of the Agricultural Machinery Trust, were able to increase their output despite the decrease in domestic demand. Their export to socialist countries grew by 25 percent and to the capitalist countries by 22 percent. The value of the latter exceeded 55 million dollars. These favorable trends may presumably be strengthened by the fact that the Agricultural Machinery Trust ceased to exist on 1 January 1985. Thus, in addition to Raba and a few other factories with such a production profile, 17 new manufacturing, one developer and one mixed enterprise have started to operate independently. We talked about the motives behind this move toward independence, about the new endeavors of our agricultural and food processing machine industry and about the conditions of our inroads into the world market with the following: Adolf Federer, general manager of the Komplex Foreign Trade Enterprise, Laszlo Sandorfi, manager of the Agricultural Machine Factory of Monor, Ferenc Szabo, manager of the Agricultural Machine Factory of Oroshaza and Andras Sziraki, manager of the Agricultural Machine Factory of Szolnok. Our guest was also Gyorgy Szabo, representing both the Ministry of Industry and the new mixed enterprise. The viewpoints of the most important customers, i.e. the agricultural enterprises, were explained by Laszlo Szorenyi, department director of the TOT [National Council of the Agricultural Producing Cooperatives]. Our editorial staff was represented by Katalin Bossanyi.

Internal Motives

NEPSZABADSAG: The organizational decentralization has been accomplished by a somewhat protracted process of central decisionmaking. In addition to governmental considerations what kind of internal motives were behind this decision?

Gyorgy Szabo: In the current organizational framework the determination of our economic policy stipulates that the umbrella of the trust should not conceal the differences in business management between the various enterprises, and that the more qualified should develop faster while instances of poor management are allowed to come to light. The organizational revision has been achieved in two stages under the supervision of the Ministry of Industry. Since 1980 the Agricultural Machinery Trust has greatly modernized its structure, increased the autonomy of the enterprises and moderated its own curtailing and balancing role. Since 1983 it became obvious--in part under the impact of the ever-more-strained economic environment--that our traditional trust-type organizational without the traditional trust-type functions rather hinders development. Procrastination in decisionmaking was motivated by the fact that many kinds of interests had to be reconciled while--as a result of the prevailing uncertainty--new tensions and conflicts arose. Some of these could have obviously been avoided, and this might serve us a lesson, both insofar as the authorities and the interested enterprises are concerned.

Ferenc Szabo: Oroshaza is one of the minor agricultural machine manufacturing enterprises. We are primarily interested in the production and development of adaptors. By the current move we have severed two links, since we have not only said goodbye to the trust but also to our mother enterprise in Bekescsaba. But we have been consciously preparing this separation for a long time, for example by adding muscle to our technical staff and modernizing our entrepreneurial methods. For, in my opinion, the emergence of independence is not a matter of internal decisionmaking but rather a result of an economic process.

Laszlo Sandorfi: I may summarize the standpoints of not only our friends at Monor but also those of the other three food industrial machine manufacturers: we have insisted for years on our independence, maybe in the form that we manufacturers of food industrial machinery should all start a new life individually and in a loose association with each other. In the first place because our professional characteristics, for example the specifics of our technology, the large number of our cottage industry workers and collaborators and our need to harmonize developments require entrepreneurial methods which are different from those of the others. But I cannot hush up also the fact that the productivity of the food industrial machine manufacturing was better than the average performance of the agricultural machine industry. Thus we felt that we have contributed to the collectivity more than what we have benefited from it.

Andras Sziraki: The Agricultural Machine Industry of Szolnok is not only the biggest, but--let me touch wood--also currently a well-balanced enterprise of this industrial sector. Thus we have been ready for independence thus far. Yet it was by no means an easy decision. Let me only mention here the fact that the last decades of the history of our agricultural machine industry was--if I may exaggerate--the history of its various reorganizations. We once belonged to this ministry, once to another, we were first fused, then some of our most efficient organizations were attached to other enterprises.

As a result of all this, at present the conditions and starting chances of our enterprises are at variance. Thus I would consider it fortunate if the current organizational framework would finally close the series of external interventions for ever, and if the independence of our enterprise would include also our ability to decide in which area would we like to cooperate in the future and with what kind of organizational and interest protecting methods do we wish to acquire customers.

Laszlo Szorenyi: We expect from our independence in the first place that the agricultural machine industry should better meet the demands of our domestic agriculture, that our joint development work should progress at a quicker pace, that our cooperation should become more flexible and the area of our services should grow larger. And last but not least that our prices should drop. We should also mention here that the development possibilities of our agriculture will decrease to some extent. Just therefore the farmers will be thrifty with their declining financial means. Our domestic agricultural machine industry will have to compete in this area and also in our country with the leading foreign enterprises.

Adolf Federer: For the Komplex Foreign Trade Enterprise the independence of the enterprises does not represent a new situation, since we cooperate with them directly, on the basis of our common interest, the trust playing only a coordinating role. Although a few agricultural machine manufacturers have applied for individual export licences, they continue to cooperate with us in their principal export ventures. We will be open toward the new joint enterprises, whether they are associations, mixed enterprises, or eventually--once we will have the resources for it--commercial firms.

Change of Direction

NEPSZABADSAG: Our industrial policy now gives a green light to the development of the agricultural machine industry. How do you assess your place and role within the general framework of the machine industry?

Gyorgy Szabo: Without wanting to enter too deeply at present into an analysis of the past, it is justified to observe: our earlier policy, which pushed the manufacturing of agricultural and food-industrial machinery into the background and--so to say--condemned it to atrophy, was not rational and--fortunately enough--could not last. The turning period of a basic change in conception came in 1977. In that year the ATB [State Planning Commission] devoted special attention to the situation of this industrial sector and outlined those seven manufacturing areas by the development of which we could on one hand catch up with our backlog and on the other enter more quickly into the international division of labor. Our share in Hungary's domestic machine industry is now 9 percent, in contrast with 4 percent previously, and we export half of our products with good profits. Our development would acquire new dynamism if the World Bank helped us with substantial loans for us to adjust to our domestic agricultural programs, and if we had the opportunity to participate in international competitive biddings.

Andras Sziraki: I do not want to be a spoilsport but we cannot get ahead of ourselves. We cannot catch up at once and in all areas with 15 years of neglected developments and with the market backlog, that is their consequence. Technologically our industrial sector belongs--generally speaking--to the middle ground. This is because we did not exploit sufficiently the advantages of socialist integration and the ample possibilities of cooperation and specialization. But progress is limited also by our existing conditions. For example, we have the problems of the support industries, which by the way are leading to the accumulation of expenditures, and making production expensive. So I think we can only make progress if we choose a more selective development program and a more clever approach to the market than what we have up to now. At the same time, it is obvious that the fruits of our efforts seem to be ripening. Let me mention one example: our enterprise at Szolnok has made great efforts during the last couple of years to purchase licences from large capitalist enterprises and to establish lasting cooperation with them. We have managed to get a few, for example with Claas and Heston. And now have we come to realize that our Western partners seek to cooperate with us.

Adolf Federer: From the viewpoint of a foreign trade specialist the agricultural machine industry went through a conspicuously dynamic period of development in recent years. For example: exports for this industry grew by 90 percent to socialist and 60 percent to capitalist countries over the last 4 years. I do not think this needs commentary. The Komplex Foreign Trade Enterprise has been a partner, not only in market research, but also in the technological renewal of this industry, and it wishes to remain so in the future. We have cooperated during the last 5 years in the purchase of more than 20 licences and technologies, and have placed about 100 million forints in development funds at the disposal of the agricultural machine factories, for financing a variety of joint actions.

Forced To Be in Step

Laszlo Szorenyi: A key issue of the development of our agricultural machine industry is how it will meet the demands of Hungarian agriculture in the future. It would be important for us to reflect on it and strengthen our cooperation in all questions of development, production and marketing. After all what we are testing here and what the farms will accept may turn out to be a good recommendation abroad.

NEPSZABADSAG: You are now forced, both from entrepreneurial and marketing viewpoints, to be in step. What kind of methods do you plan to apply for strengthening your economic stability and competitiveness?

Laszlo Sandorfi: We have realized that in the long run it is better to stand on more than one leg. Therefore we are developing some of the important support industrial products of agricultural machine industry, i.e. various hydraulic instruments and pumps, using credits granted by the World Bank. In this machinery we are able to meet domestic demand and even export part of

our products. In addition--as part of our basic production profile--we have developed slaughterhouse equipment for the energy-saving processing of cold meat byproducts. At present we are able to use all byproducts of poultry processing with the exception of feathers for animal fodder, mainly for hog feeding. This operation is well linked with our new emerging biotechnical program. The agent of the aforementioned technology is the state farm of Pankota, while we have established the supply unit at the Poultry Industrial Enterprise of Kecskemet, with success as far as the current assessment goes.

Andras Sziraki: Our enterprise at Szolnok also plans to cooperate with the biotechnological program. We plan to manufacture energy-saving machinery for fodder harvesting and to develop technologies for the utilization of byproducts. Of course a breakthrough in this area could only be accomplished if we harmonize the scientific exploits with our awareness of the interests of the users and if we achieve more flexible cooperation with them. With this in mind we have now called together the managers of the largest agricultural organizations for a dialogue, to try to, for example, coordinate further developments in time and to learn from each other's experiences. Because licences should not be purchased from foreign countries alone. For instance, we have bought one of the processes of KITE [Corn and Industrial Crop Growing Cooperation] and have not been disappointed. Of course, willingness to cooperate cannot be unilateral. So we want to make good the principle of shared profits and shared risks in our contracts.

Accommodation With Market

Laszlo Szorenyi: This goes without saying, since we have shared interests. We hope for more skill in the development of modern machinery for animal husbandry. Another timely task is the need to rebuild various animal farms. But we may spell out the correlation also from another angle. It is well known that agricultural investments are of a cyclical nature, and this might cause temporary fluctuations of capacity in our industry. Some balance might be brought about if the agricultural machine factories which have an excess capacity would participate more actively in the reparation and renewal of the machinery used by agriculture.

NEPSZABADSAG: The agricultural machine industry exports more than half of its products against increasingly hard competition. How do you assess the marketing chances of the near future?

Ferenc Szabo: We have to undertake very meticulous and constant development to further increase our exports. We at Oroshaza started with the manufacturing of Class adapters. Later we made progress and nowadays our adapters can be applied to all kinds of machines which are in use in Hungary. Moreover the devices which we have developed are lighter than those made by the owner of the original licence. So we are going to experiment now, in addition to our shipments to socialist countries, also with export to the capitalist countries.

Laszlo Sandorfi: We offer various types of slaughterhouse equipment both to the developing countries and to the socialist market. I consider it as a significant achievement that we have managed to ship the complete equipment for a slaughterhouse to Czechoslovakia and steering machines to Poland and the GDR. Our newest market is China. In short we are going to put into operation a slaughterhouse near Beijing with a processing capacity of 4,500 chickens per hour. Once it operates successfully, we expect other orders. We expected a lot from the Soviet market, but negotiations with them are somewhat protracted. Thus we would like to make a move to meet their requirements. We have developed, for example, "dwarf" slaughterhouses, which are able to process 50 to 350 fowl per hour. They are also very flexible, easy to assemble and dismantle, and thus they can be put up on demand wherever their operation is most economical. According to our preliminary review, the Soviet Union will buy several dozens of such smaller slaughterhouses in the years to come. But there is quite an interest shown in them by some developing countries, for example in Algeria.

Andras Sziraki: We also would like to participate in the Soviet food production program. Part of our new development projects are oriented toward this goal. But this is not only our idea, our associate enterprises are also tending to it. I would only mention here our latest plan to protect equipment, household farm machines, grape and fruit harvesting systems. There is apparently demand for them, we are talking about their sale, but the pace of the negotiations appears to be somewhat slow. Therefore we expect a lot from the possibility of direct negotiations with the individual Soviet republics, since in this way we could come closer to our customers and may get better acquainted with their needs. Another of our "package plans" is the development of system-analytical equipment for the harvesting of fibrous products and the storage of fodder. This would amount to both import subsidization and export, as a result of the various cooperation agreements.

Adolf Federer: In fact, one of the long-term markets for our agricultural machine industry is the USSR. On the basis of our preliminary contacts it seems that as far as our machine industry is concerned, the export of agricultural and food-processing industrial equipment may grow at a faster than average rate. Yet, unlike the previous period, we have to count with the need of a structural change, i.e. the export of complete food industrial complexes may somewhat decline. On the other hand, our share in the rebuilding of old factories may grow. Insofar as the developing countries are concerned, our successful deliveries primarily of food processing machines have established, during the last couple of years, our good reputation. Thus we have acquired basic marketing possibilities in Algeria, Iraq, Iran and Egypt. By increasing our customer service activities and opening new offices of common interest, we may strengthen our position in that area. Hungarian exports to the Third World might be, in my view, hampered by the lack of solvent demand rather than by sharp competition. Thus we have to proceed very cautiously. The same applies to our efforts to export entire systems; a demand might exist but for the lack of capital. The export of big agricultural machines and equipments has been rendered more difficult by the fact that the size of the recipient countries' farms is usually

different from that of ours, and that accomodation with the local conditions is a time- and money-consuming process. Therefore, although we have not given up the idea of exporting complete lines of machines and equipment, we are now experimenting, as a new venture, with the export of partial units and technologies, primarily to the African countries. This method, since it involves a transfer of technology, organization, training and shipment of commodities, may find a good reception. For it contributes to the establishment and modernization of national industries, while improving the chances of Hungarian export.

What Serves as Bond

NEPSZABADSAG: After spelling out the advantages of independence, it now seems to be justified to ask: Is there any area which will nudge agricultural machine factories to cooperate in the future and to assert the common interests of this industrial sector?

Gyorgy Szabo: Up till now, I have spoken as a representative of the Ministry of Industry: let me now change my role. For I have been honored by the enterprises which became independent, by my election as director of the new joint enterprise. This, christened as INNOKOÖD, will operate--by commission from the member enterprises, serving the common interests--on a strictly economical, i.e. profit basis. We shall operate primarily on orders from the member enterprises, but our company is open and any Hungarian enterprise involved in this manufacturing branch may join our activities. Among other things we will comply with the tasks of cooperation, stemming from the CEMA integration framework, and will survey the implementation of agreements concerning specialization and cooperation. I may add: this represents also a sort of interest-protecting task. Moreover we will develop and introduce a joint computerized guidance system, as a service from us, and on demand we will jointly purchase metallurgical materials and will import spare parts. Another activity of this enterprise--indicated by INNO in its name--will consist of the establishment of three innovation enterprises, which will manage agricultural, food-industrial and biotechnological innovations, also on a commission basis.

Andras Sziraki: We did not find this joint enterprise as a replacement for the trust, or as its successor, but because in the agricultural machine industry the character of the tasks and the specifics of exports will now warrant the harmonization of developmental and entrepreneurial plans. Moreover various bilateral cooperation agreements will also be established, for example for shouldering support industrial tasks and joint export undertakings. Therefore I trust that our ties will not loosen, but that by the intelligent coordination of national economic and entrepreneurial interests, although now individually but perhaps more efficiently than thus far, we will make progress.

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HUNGARY

CREDIT POLICY FAVORS COST EFFECTIVE PROJECTS IN AGRICULTURE

Budapest NEPSZABADSAG in Hungarian 18 Feb 85 p 3

[Interview with Pal Kis, vice-chairman of the Hungarian National Bank]

[Summary] In 1984, 19.6 percent of the monies spent on agricultural investments originated in the form of credits. Investment credits are expected to increase to 21.5 percent this year. From now on, the agro-industrial, commercial and cooperative main directorate of the Hungarian National Bank will handle credit matters of the food industry. It will be bank policy to grant credits on a competitive basis, favoring projects which will promote flexible, efficient management, better adjustment to domestic and foreign markets. This more active role will apply not only to the Hungarian National Bank since other financial institutions will also play a greater role in matters of credit.

According to Pal Kis, since the bank must consider the market in obtaining its resources, it has direct interest in ascertaining that the credits granted will net it a profit. This does not mean that the bank will no longer aid poor TSZs and state farms. At least one-third of the farms are in trouble and need money to rehabilitate themselves. However, the bank will abide by the principle that solution of financial tensions is primarily the task of the farms, themselves. Therefore, it can risk granting credits only to such farms where there are prospects of overcoming money shortages within a specific period. Where there is doubt, the bank will provide credit only on the basis of guarantees of payment.

Farms operating at a loss or suffering drought damage will receive financial aid, but this is the job of the budget as well as the bank. Priority will continue to be given to investments which promote economic stability such as developments which produce high income, have a quick rate of return and increase exports. These will include the intensive grain-growing and storage program which 600 large have already joined as well as the program being readied to update livestock stabling and improve meat and milk processing.

As in 1984, the bank can grant investment credits amounting to 7 billion forints to the food industry. The sum will be distributed on the basis of the efficiency of the proposals submitted. No advance profitability requirements, such as the former asset-profit ratio of 9 percent, will be set this year. This is expected to result in more realistic profitability assessments in requests for credit and should lead to greater competitiveness. In the past farms engaged in animal husbandry had to devote one-third to one-fourth of their asset-proportional profits to repayment of interest on credits, and this

restricted investment. This was especially true in the case of low-income livestock raising farms. However, such farms can use their funds to buy machinery and expand crop raising through soil amelioration. Credits will be available to profitable livestock raisers.

Should farms be unable to initiate investments considered profitable from the viewpoint of the bank in this period, they can deposit funds in the bank at an interest rate of 11 percent. Such deposits amount to 800 million forints now and are expected to increase by 400 million-500 million forints this year. Developments funds for farms and enterprises can also be obtained through bond issues.

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YUGOSLAVIA

BILIC DISCUSSES PROBLEMS, TASKS IN INTEGRATING ECONOMY

Belgrade PRIVREDNI PREGLED in Serbo-Croatian 26-28 Jan 85 pp 1, 5

[Interview with Jure Bilic, member of SKJ Central Committee Presidium]

[Text] As has been demonstrated by the party discussion, it is highly important for the unity of ideology and action of the League of Communists of Yugoslavia (SKJ) to conform consistently to the Program of the League of Communists and the Long-Term Economic Stabilization Program. Despite all the weaknesses and omissions of the stabilization program, it must be carried out, since this document has been approved by the highest party forums, following broad discussion throughout Yugoslavia; and because the program has been approved, no one has the right to question it. Everyone must consider it his duty to carry it out. If some demand that only the Constitution be observed, others the second associated labor law, and still others the Long-Term Stabilization Program, there clearly will be no unity of ideology and action of the SKJ.

As is pointed out by our interviewee, Jure Bilic, a member of the Presidium of the SKJ Central Committee, communists today can no longer take as a guide what is said; they can judge only by the way in which the basic determinations and documents of Yugoslav society and the SKJ are applied in practice. This is especially important now, when facing the problems of finding the best way to harmonize the objectively different interests of the republics and provinces. While we have developed centralism and unitarism in Yugoslavia, several small-scale state socialisms have been established. We can counter the state socialisms of the republics and provinces, as well as regionalism and particularism, only by promoting further development of self-management and the power of the working class.

The working class never has been, and never will be, an advocate of narrow national, regional, and partial interests. During this decade we have developed forces and relationships which have directly caused the current crisis situation. With this series of interviews, PRIVREDNI PREGLED has entered the discussion on conceptions of the predominance of the current social disturbances and reconstruction of social relationships. Jure Bilic was interviewed by our reporter Zdravka Cicmirko-Pokrajcic on this subject:

"At this time I do not intend to give a broader evaluation of implementation of the Long-Term Stabilization Program, since that would be impossible on this occasion. I will rather deal with a few of what I feel to be essential currently topical matters. The Constitution, the Associated Labor Law, and the stabilization program have raised a question of fundamental importance from the social viewpoint, that is, how to secure the historical role of the working class and associated producer as promoter of the economic development of society and in gradually gaining control of the process of capital replacement as a whole," stated Jure Bilic, and then continued:

"The vital question at the moment is how much of their earnings is available to the economy or workers in associated labor. Even during the period of preparation of the constitutional amendments, in the 1970's, the goal was assigned of having the economy control 70 percent of public funds. If we analyze what has happened over the last 10 years, we see that the share of the economy currently amounts to around 50 percent, and some experts say that it is only 40 percent. If we expect the working class to play its historical role and those building socialism and socialist self-management to create the conditions for communism, about which little is unfortunately being said in Yugoslavia, it cannot play this role if there is no substantial change in its social situation.

"Dismantling" of the Economic Function of the State

Every social system, including the bourgeois, under which the bourgeoisie is the owner of capital, profit has been the force which drew the economy of capitalist society toward integration, and currently toward the level of multinational relationships creating large multinational companies. These are clearly different social relationships, since ownership is capitalist, but in the historical sense it has played a significant part in development of the productive forces of its own countries and throughout the world, regardless of the fact that this has been achieved through exploitation of its own working class, and through exploitation of many countries in the world, especially in the former colonial empire.

On the other hand, we have the socialist countries, which develop their productive forces and management in a specific manner of their own, through the role of the state, state socialism. It appears now, according to our evaluations and analyses, that this state socialism has exhausted its historical potential in the socialist countries. Hence efforts in these countries are directed toward finding ways of using the modern resources and achievements of technology to conduct production which is as rational and productive as possible, and toward carrying out certain reforms to adapt them to the forces of production and causing them to play a positive, progressive role in the development of these forces, and accordingly of society.

[Question] And where are we in this socioeconomic ferment in the world?

[Answer] Especially from the 1970's to the present we have tried to strip the state, the federation, of its power, to "dismantle" it, as regards its economic function, in order to free the productive forces of society and to

achieve maximum results by stimulating the struggle for income and for development of productive forces. Consequently, incentive is provided for the worker in the form of remuneration according to the work and income of the labor collective.

Unfortunately, many relationships here have not yet been explained. Some persons say that there are as many as 30 documents in the basic associated labor organizations and in the economy as a whole which deal with questions of social relationships in associated labor organizations and are supposed to stimulate productivity. They do not accomplish this function. As they put it, associated labor has today become group-specific, and, on the other hand, income as a social category is not playing its expected role in integration of the Yugoslav economy.

[Insert]

However, distortion of statism at the federal level has led to strengthening of statism in sociopolitical associations, and today this is the basic factor slowing down the development of productive forces on rational principles. Hence extended capital replacement has had many weak points and failures over the last 10 years. If we agree that this is the actual state of affairs, the current mission is to liberate the economic from these statist restraints.

Yugoslavia is a multi-ethnic community, and an analysis should be made of what is still happening in our country. We have said that the working class should be in control of expanded capital replacement. Since the working class is part of the ethnos, it is interested in having the remainder accept its program and move in the direction of equalizing the position of the working class with that of all other working people. The working class, as advocate of national interests, carries on the process of opening the republics up and changing them to republics of self-managed associated labor. This today is one of the fundamental problems, that of rendering the capital replacement ability of society as rational and economical as possible and of making the best possible use of all potential. The contemporary economy cannot withstand an autarkic approach, isolation, and irrationality, that is, everything that hampers development.

[Question] To what extent has this process been started in Yugoslavia?

[Answer] Today this process has not been started at all, or has been started to an insufficient extent in the republics. Every entity takes care of itself, from the associated labor organization to the republic and province. This is a weakness of the so-called republican economies. They can be understood only from the viewpoint that the working class and the ethnos has its surplus labor, but socialist self-management in Yugoslavia must find solutions such that the most rational possible use will be made of all potential available to us in the unified Yugoslav economic area in the division of labor. This is the internationalist role of the working class, and its historic interests are realized in this way.

Organized Integration of the Economy

We have two extremes today. There is the opinion that through the operation of its laws the free market alone will lead to integration of the Yugoslav economy. The free market alone might do something in a prolonged historical process, but the time factor does not allow the process to go forward of itself, spontaneously. After all, the development of capitalism has not proceeded and is not proceeding exclusively in spontaneous fashion, but additionally as a result of the deliberate action of the bourgeois class, through concentration of productive forces and capital in various ways and through use of the state as a capitalist structure.

The other extreme is that, in the republics and provinces and in Yugoslavia as a whole, associations, corporations, are prescribed by administrative decision, in the form of reproduction entities, and that the economy is organized in this form, with no account taken of the complexity of its economic relations, and the question of integration of the Yugoslav economy is settled in this manner. However, our experience from the time when we had statist integration and so-called directorates, state ministries, demonstrated that this method has limited potential. Consequently, we tried to "dismantle" the federation in the economic sense, but "dismantling" in the political and scientific sense also took place. The urgent task now is to "liberate" the republics, provinces, and communities from the statist relationships and powers and to "assemble" Yugoslav society on the basis of the new self-management relationships. There is a strong link between statism and bureaucracy, and in general these forces are becoming stronger in society. We must speed up development of the self-management system, which will destroy these counterrevolutionary forces. But this is a separate topic.

[Question] Who should be the initiator of this assembly, as you term it?

[Answer] This is now the historic mission of the League of Communists of Yugoslavia and of subjective factors. Yugoslav society has gained a certain amount of experience in solution of many problems of development of productive forces in individual groupings, from raw materials and process industry to the market, especially export, through business associations. For example, 35 associated copper producers in Yugoslavia have drawn up a program under which they are investing hundreds of billions of dinars. However, at the same time they are not planning development of process industry and resolving the problems of their economic relations, joint exports, and so forth truly on the basis of the income relations that have been constructed. You see, politics, the government, the party, the National Assembly, and the executive councils have not been involved at all in Jugobakar. The process of association has often taken place in opposition to these elements. However, political relationships, the system, and especially the position of the banks do not depend on this. Under the influence of the government and politics, or political factors, our banking system is headed toward irrationality, or to put it better, toward nationalization of relationships.

This experience and others like it show that programs based on the principles of self-management integration and to be further improved and developed in practice should be created through the Economic Chamber of Yugoslavia and the Council of the Republics and Provinces. Other economic associations of different kinds are also possible. We must not stereotype them.

[Insert]

The greatest weakness of the subjective factor of various institutions, republics, provinces, and the federation as a whole over the last 10 years has been that we have not analyzed what has taken place in real life and that we have not created development programs, the genesis of a new society, since there are many positive things and processes in them. This is also the source of the criticism that the League of Communists has given more support to the government, and less to the social production, self-management, institutions of our producers.

By the time of the 13th Congress, the SKJ must draw up a program which will raise the Yugoslav economy to the highest level over the next decade. A process of integrating the Yugoslav economy should be initiated which would contribute to resolving many problems and political tensions in the country and to building of national relations among the peoples and nationalities on the basis of new principles, that is to say, a process which would create the broadest opportunity for solidarity and unity of the working class.

In this way many political conflicts and phenomena of nationalism, in unitarist or separatist form, would lose their economic foundation. It would also lead toward rational production, productivity, and--an essential aspect--it would be a powerful factor for us on the world economic stage which could be more successfully applied in dealings with multinational companies and integrated economies resting on a government foundation. It might also be possible to engage our disintegrated scientific sector, which could utilize worldwide achievements to offer its own solutions with the ambition of making a contribution to the world technological revolution.

Dogmas Harm the Economy

In this way the economic destruction among the disintegrated economic factors in Yugoslavia on the world market would diminish and losses would decrease. Many companies and our partners throughout the world exploit the quarrels and lack of cooperation among our economic agencies, among other things because we achieve lower economic results. Some persons say--I do not know how accurate it is--that we are losing around 1 billion dollars. This is why an action program should be drawn up to eliminate this loss. It should be drawn up in the economic chambers. As an illustration, I would like to point out that specialists of Pesine in France recently bypassed our aluminum industry.

In addition to the well-known technological weaknesses and lags, the high production costs in power engineering in particular, and the like, they stated that the biggest weakness of this industry is that it is disintegrated.

Some data also indicate that we also consume about 30 percent more raw materials and energy per unit product than the developed world. A program must be drawn up to solve this problem.

In addition, the economy should take the initiative in development manufacture of smaller supplementary products, that is, make room for establishment of a great number of shops in the so-called minor [private] economy which would cooperate with the public sector. Private initiative could find expression here, both to satisfy the needs of the population and to meet the needs of public sector production facilities. Room would be made for higher employment, especially of the younger generation currently out of work. There is not enough agreement among us on this point.

I believe that many dogmas still predominate in our society, especially as regards the possibility of cooperation and division of labor between the Yugoslav and the world economy. We should be freer and bolder in this area.

[Question] In your opinion, what is holding up the socioeconomic and political development of Yugoslavia?

[Answer] We have hundreds of thousands of our people working abroad. For example, we have economic emigres in America who consider themselves to be patriotic Yugoslavs. We have them in Western Europe as well. China, for example, has set up a bank for American citizens who originally came from China. They use this bank to attract the funds of American Chinese for delivery to China. We are afraid of this; here we are partial and adhere to certain dogmas. And our workers leave this money in capitalist banks.

A separate question is that of the banking system, whether the banks, which must exist and accumulate funds, should be associated labor organizations, and whether they should not merely perform technical services but also be an economic element in adjustment of the development of production or expanded capital replacement.

Onesidedness of the Council of Republics and Provinces

The Council of Republics and Provinces is not exclusively a representative of the governments of the republics and of the positions of the autonomous provinces. Today this council plays a onesided role. The conflicts of the republics as states are expressed in it and statist interests are given expression. The conflicts revolve mainly around the matter of how to manage more successfully with the economic instruments. For all these reasons the Council of the Republics and Provinces must be more an expression of self-management relationships and interests than an area of struggle for profit and clash of individual interests. For example, it should exert an influence in creation of economic and other linking in the Yugoslav economy and society.

The Federal Council should also be examined in a new light. The delegates to it should not only express the interests of their own republics and provinces, but should be a factor, in keeping with their authority, in self-management expression of interests at the federal level. The Council should

start concerning itself not merely with instruments but also with stimulating development of the economy and society as a whole. A special review should be made of the work of the associated labor councils, to determine whether they are capable of developing the economy on the principles we have agreed upon.

[Question] To what extent has the working class participated in "dismantling" the economic function of the federal government?

[Answer] From the 1950's to the present, when we began the self-management system, since the time of establishment of the first worker councils, this process has been a fairly slow and difficult one. But the demands of the working class have always been present. The League of Communists initiated this process. And the many changes in society over the last 40 years have been the result of a quest for solutions by the SKJ, its leadership in particular, and all the creative forces of society.

The working class has not been the element which directly devised these changes in theory and practice, but its demands have been in the direction of the changes offered by the SKJ. It has accepted the orientation and leadership of the SKJ and has become the material base for more rapid changes. It will be able to exert a stronger and more direct influence when it is organized in such a way that it administers and controls all public funds through association of direct producers and through delegations. This is its historic mission in withering away of the state and the party.

[Question] Comrade Bilic, I have been thinking about the division of the republics and provinces and their isolation. To what extent has this been influenced by the worker in production? Hasn't this taken place despite the worker?

[Answer] The public discussion and the criticism of isolation of republic and province, region, and community have resulted from the social relationship which was based on the old statist principles. Commencement of the denationalization process marked beginning of the process of integration on self-management principles in Yugoslavia. Hence the working class itself will be the one, so to speak, to build the new relationships.

Verbal Skirmishes

It emerges from the discussions in progress that everything would be fine if it weren't for the republics and provinces. Other socialist countries with no republics and provinces have more serious dramatic conflicts and crises than ours. That is to say, the problem does not lie in the existence of the republics and provinces, but in the situation of the working class. But the subjective elements and the League of Communists flirt to some extent with republic and province statism; they support it rather than distance themselves from it and confine the state to the functions it should perform as the "servant" of the working class, as clearly defined in our Constitution.

[Question] In the matter of implementation of the stabilization program, there is the impression that it is being increasingly used in propaganda material and less as an economic reform document.

[Answer] Well, these verbal skirmishes over the stabilization program do not interest me in the least, nor do I think that they are all that important. They must be taken into consideration only insofar as they create an unfavorable social climate and cause misunderstandings, which must be eliminated from our statements, propaganda, and writings as soon as possible. The presidium of the CKJ Central Committee has appointed a group of 29 persons to analyze implementation of all the sections of the economic stabilization program and to determine what point we have arrived at and what we should do next.

There is much argument about whether the policy of a realistic dinar exchange rate and realistic interest rates will promote the inflation control program or will accelerate inflation. A group has been formed in the presidium of the SKJ Central Committee to determine what is and what is not being accomplished by the inflation control program. The discussions thus far have shown that implementation of the program has been onesided. We have decided on a realistic dinar exchange rate and realistic interest rates, but we have not eased the burden on the economy, and it still depends too much on credit.

Our budgetary resources ebb and flow. To secure these resources in a simple manner we increase the sale tax, and in this way we have arrived at a situation of spontaneous price rises. Prices do not rise exclusively as a result of the tax; when one price begins to rise, it pulls others up. Many elements cover up their inefficiency with such rises. The law of supply and demand, of the marketplace, is still not in operation. There are many effects here which will require economic intervention.

[Question] You have said that two groups have been formed in the presidium of the SKJ Central Committee. Does this mean that something of fundamental importance is being done by the highest leaders of the party?

[Answer] The discussion about the 13th meeting of the SKJ Central Committee has raised two essential questions. The first is whether the SKJ, as being responsible for the fate of the country and the development of self-management, should initiate a search for an answer to the question of the further development of socialism and self-management in Yugoslavia. For this purpose it must initiate a quest to find answers for all the questions not fully dealt with in the stabilization program or needing additional solutions and, must initiate implementation of the program on the basis of an agreement. The CKJ Presidium has also formed eight subgroups which are to analyze separate aspects connected with the stabilization program, in the area of public ownership, achievement of the position of the workers in socialized labor, decision making and disposal of public capital replacement funds, the inflation control program, development of the system of foreign economic relations, and especially the foreign exchange system. There are also the problems of social differences and unemployment

ideological political questions of the planning system, and the strategy of technological development.

The Fate of Socialism is at Stake

Another task assigned in the discussion connected with the 13th session of the SKJ Central Committee is the question of responsibility, along with the requirement that everything impeding social development must be eliminated. All communists in the self-management delegate system must carry out their missions. There can be no success in the discussions of the draft conclusions of the 13th session if only a little snow falls and our entire railroad system almost falls apart. This is why the conference of communists in the Yugoslav railroad transportation enterprises was held.

[Question] You have stated that we are heading in the direction of an "assembly" of the federation. Will this process be faster than the so-called "disassembly" of the economic function of the state?

[Answer] The Constitution and the Associated Labor Law were adopted during a period of a certain amount of economic prosperity. The Executive Bureau and Comrade Tito intervened at that time, in 1972, to speed up settlement of questions. Since there was a certain amount of prosperity at the time, so we promptly supported these measures, and then so to speak fell asleep.

The situation is different today. As some people say, we have an economic crisis. Consequently, we have been driven into a corner and we can no longer allow this situation to persist. Public discussion has shown that the time of peaceful development is at an end. Before us lie decades of profound revolutionary actions and changes. By the time of the 13th SKJ Congress we must solve the major problems and cause the subjective element to behave differently. Accordingly, what is at stake is the fate of socialism, not whether Yugoslavia will exist or not, but how Yugoslavia will move forward and in what direction and whether it will with its system play the world role it has played in the past, especially among the nonaligned nations, and make its contribution to socialism and progressive forces in the world in general. The responsibility is consequently great, because of the domestic situation and that in the world at large. There can accordingly be no deviations and vacillations on this score. Revolution is struggle, not a peaceful life. Strong, moral fighters for these changes are needed today.

6115
CSO: 2800/192

YUGOSLAVIA

EMPLOYMENT SITUATION IN KOSOVO DETAILED

Pristina JEDINSTVO in Serbo-Croatian 11 Jan 85 p 6

[Article by Z. Pokusevska: "Jobs Through Retraining"]

[Text] The level of employment in the province of Kosovo varies from year to year. It was planned that 58,000 people would be employed during the current 5-year period, but so far only 27,600 have been employed, which is only 47.5 percent of the planned number.

Although at the beginning of the year work organizations in Kosovo announced requirements for filling 16,000 openings, 1,530 less than in 1983, they were not able to fill them. In nine months, around 10,800 workers were employed, over 3,700 of them in seasonal jobs. In fact, work organizations announced that they needed 5,030 unskilled workers, but in nine months employed 4,220. Of the announced requirements for 1,269 semiskilled workers, 800 were employed; of the 2,619 skilled and highly skilled workers, 1,071 were employed; of the requirements announced for 2,988 people with intermediate vocational training, 2,457 were filled; for those with a higher level, 890 out of 2,178 openings were filled. Not even all of the jobs requiring a faculty diploma were filled. Of the 1,917 highly qualified personnel required, only 567 were employed. The fact that about 6,180 positions have remained unfilled, even though 104,000 unemployed are waiting for work, was discussed at the latest Assembly of the Provincial Community for Employment. It was stated that among the numerous reasons resulting from economic difficulties, this situation was caused by the discrepancy between the personnel needed by the economy and those waiting for work.

Getting Work More Quickly Through Additional Training

In view of the large influx of unemployed, a solution for reducing unemployment must be sought, more than in the past, through the retraining and vocational education of the existing personnel in accordance with the needs of the economy. About 41,800 unemployed with intermediate vocational training, i.e. 40 percent of the total number of unemployed, most of whom have no realistic chance for employment, are waiting for work at the communities for employment. Consequently, their real chance is in vocational education and retraining for occupations in which associated labor has

a shortage. The self-managing interest communities for employment, through their centers for vocational education and retraining, engage in the additional training of the unemployed. This type of education is the shortest way to train workers, and it eliminates shortages in occupations while at the same time ensuring employment. Consequently, the communities for employment are concluding contracts with work organizations and training centers on the method of training the unemployed in accordance with the requirements of associated labor.

For the 1984-1985 school year for the first, second, and third degrees of vocational training and retraining, it has been planned that 2,346 people be included for various occupations needed by the economy. The enrollment plan has not yet been fulfilled, however. There are 1,240 unemployed who have been included in this type of training. Kosovo's budget will provide the funds for carrying out the program tasks related to this type of training for work, on the basis of the criteria established by the Assembly of the Provincial Community for Employment. For the people to be trained or retrained in the location where they live, i.e. at the center of the interopstina community for employment, the expenses are calculated on the basis of the candidate, at 12,000 dinars apiece, while for the people being trained outside the center of Kosovo the expenses are 15,000 per candidate. Since these funds are small and they do not cover the training costs, it has been proposed that they be increased from the present 12,000 to 15,000 per candidate, and that those at 15,000 be increased to 20,000 from the beginning of the 1984-1985 school year.

Unfavorable Training of the Unemployed

In spite of the noticeable results that have been achieved in the activity to date in the vocational training and retraining of the unemployed, the training structure of the unemployed at the communities for employment, as well as of those employed in work organizations, is still unfavorable, however.

In the present conditions, it is almost impossible for unskilled, unemployed workers to find jobs. There are several communities for employment with 40 percent of the total number of the unemployed who have a secondary school education, but who are in overfilled occupations that offer poor chances for rapid employment. Accordingly, it was stressed at this meeting, it is necessary to make more of an effort and have more faith in their vocational training and retraining, especially for the people who need employment the most.

9909
CSO: 2800/211

YUGOSLAVIA

JOINT MONETARY, CREDIT POLICY IN 1985 OUTLINED

Belgrade SLUZBENI LIST SFRJ in Serbo-Croatian No 71, 31 Dec 84 pp 1676-1680

[Text] On the basis of article 281, paragraph 1, clause 5) and article 286, paragraph 2, clause 2) of the Constitution of the Socialist Federal Republic of Yugoslavia, in connection with article 20 of the Law on the Money System (SLUZBENI LIST SFRJ No 49, 1975 and No 61, 1982), the SFRJ Assembly, at a session of the Chamber of Republics and Provinces on 28 December 1984 passed a resolution on the Tasks and Goals of Joint Issuing and Monetary Policy and Joint Credit Policy Bases for 1985.

1. Joint issuing and monetary policy and joint credit policy bases for 1985 will support implementation of basic economic policy goals established by the Resolution on Social and Economic Development and Economic Policy of the Socialist Federal Republic of Yugoslavia in 1985 (in a supplement to documents entitled "Resolutions for 1985"), in accordance with the Long-Range Economic Stabilization Program. In order to do this, in addition to the use of similar measures in other economic policy areas, credit and monetary policy will be used to stimulate further growth of production and exports-- above all, rapid growth in the production of goods and services for export will be sought. This is an essential condition for maintaining liquidity in payments to foreign countries. An increase in the production of basic agricultural and food industry products, energy, other raw materials and semi-finished materials, which can be rationally substituted for imports, will act to retard the growth of domestic demand, limit increases in the rate of inflation, and improve liquidity in the economy.

2. In order to implement the tasks and goals from clause 1 of this resolution, consistent functioning of money supply, net domestic assets and bank investments-- according to volume and structure-- in implementing the Long-Range Economic Stabilization Program will be provided for. Accordingly, measures of monetary and credit policy will provide for a possible increase in the money supply of up to 42 percent, and an increase of up to 15 percent in net domestic assets of all banks, disregarding effects of changes in the dinar exchange rate, in addition, total bank dinar investments can increase up to 30.5 percent compared to their level as of 31 December 1984.

If real economic activity achieved during the year deviates by more than five index points compared to the level of activity proposed at the beginning of the year, the Federal Executive Council will propose to the SFRY Assembly, before the dates 15 July and 15 October, that the rate of growth from paragraph 1 of this clause be adjusted so that the new rate of growth of the monetary-credit aggregates continues to function in implementing policies of economic stabilization.

Measures of credit and monetary policy, implemented by the National Bank of Yugoslavia and the national banks of the republics and autonomous provinces, and the business policy of banks, will insure that the volume and dynamics of growth of the money supply, net domestic assets, and bank dinar investments are coordinated throughout the year in accordance with the limits set forth in paragraph 1 of this clause; moreover, seasonal requirements of organizations of associated labor will be taken into account.

3. To guarantee the availability of funds necessary for financing current reproduction, especially those for priority intentions, monetary and credit policy regulations and measures, as well as bank business policy in 1985 will insure that:

1) bank business policy gives priority to bank investments; for financing current reproduction, above all for the export of goods and services to convertible currency markets; export which is part of long-range production collaboration, and export of goods and services to accounting currency markets which is being carried out by international agreements; for the production of goods and services for export; for the production and reserves of basic agricultural and food industry products and for the creation of necessary market goods reserves of these products; for the production of energy, energy raw materials, other raw materials and semifinished materials to replace imports; and for the production of domestic equipment, ships, and railroad cars to meet the needs of Yugoslav railroads; and for the production of artificial fertilizers.

Credit and monetary policy measures will provide for the growth of bank investments for financing production and reserves of basic agricultural and food industry products according to the available limits of credit and monetary policy, while taking into consideration the seasonal nature of investments in production and repurchase.

2) bank investment credits in fixed assets to users of public assets increase at a slower rate relative to total bank investments; in addition, that a faster rate of growth of bank investment credits in fixed assets for priorities established in clause 13 of the Resolution for 1985 be guaranteed.

3) bank investments for public housing construction, including investments for construction of water supply projects which are needed to prevent major disruptions in the supply of water, can be increased, according to clause 3 of this resolution, to the level of growth of bank investments in fixed assets for priorities from paragraph 1 of this clause.

In order to improve the liquidity of the economy and of banks, especially of the economically underdeveloped republics and the Socialist Autonomous Province of Kosovo, the Federal Executive Council will propose that the SFRY Assembly pass appropriate measures as part of established credit and monetary policy.

4. In accordance with policies set forth in clause 3 of this resolution, the National Bank of Yugoslavia will prescribe a limitation on the volume and dynamics of the growth of net domestic assets and bank investments in 1985 within the limits established by this resolution. In implementing this resolution, bank investments for individual intentions will not be excluded from the obligation of limitation; in addition, in accordance with the priority policy from clause 3, paragraph 1, subclause 1) of this decision, different rates of growth for some forms of investments may be established if it is thought that this is necessary in order to carry out credit and monetary policy tasks more efficiently. Moreover, credit and monetary policy measures, along with bank business policy, will insure that the policy of limiting investment credits in fixed assets is established in accordance with the policy provided for in clause 3, paragraph 1, subclause 2) of this decision.

The obligation of limiting the growth of investments will not be applied in the following exemptions from the regulations of paragraph 1 of this clause: bank investments from monies of the Federation Fund for Financing Accelerated Development of Economically Underdeveloped Republics and Autonomous Provinces, investments for restoration and construction of areas damaged by earthquakes, investments from supplemental and special funds which are used for accelerated development of the Socialist Autonomous Province of Kosovo, mostly up to the amount of incoming funds realized for these purposes in accordance with laws and other regulations, and investments for financing the export of equipment and ships and for carrying out investment projects abroad on credit-- up to the amount of funds received in 1985 for this purpose from the Yugoslav Bank for International Economic Cooperation; investment credits of banks which accompany investments from the permanent reserves of the Federation Fund for Financing Accelerated Development of Economically Underdeveloped Republics and Autonomous Provinces-- within the portion formed by association of labor and resources of organizations of associated labor, and investment credits of banks which include participation of credits of the International Bank for Reconstruction and Development and its affiliates, the European Investment Bank and EUROTIMA; in addition, the growth of these investments can be limited if their growth deviates quite substantially from planned growth, except for bank investments from funds of the Federation Fund for Financing Accelerated Development of Economically Underdeveloped Republics and Autonomous Provinces, investments for restoration and construction of areas damaged by earthquakes, and investments from supplemental and special funds which are used for the accelerated development of the Socialist Autonomous Province of Kosovo.

5. Primary issue will be used for regulating needed growth in the money supply and in bank investments within the limits set forth in clause 2, paragraph 1 of this resolution, and for connecting money issuance with

movements of reproduction in the economy.

Within the limits set forth in paragraph 1 of this clause, primary issue will be used for purchasing short-term transferrable securities which are issued by organizations of associated labor in the production sector, or by their internal banks, in business transactions involving purchase and sale of goods and performance of services in Yugoslavia, for providing credit to banks on the basis of these securities, and for supporting implementation of selected goals and tasks of credit and monetary policy.

In accordance with the overall limits of primary issue, a gradual increase in primary issue will be continued by linear monetization of securities of organizations of associated labor.

The value of production and reserves of agricultural and food industry products-- in order to establish the level of participation of primary issue in bank investments for these purposes-- will be calculated as follows:

-- according to prices prescribed by the Federal Executive Council pursuant to article 33 of the Law on the Public Price Control System (SLUZBENI LIST SFRJ No 64, 1984);

-- according to prices established in agreements pertaining to measures for organized repurchase of certain agricultural products which are concluded at the federation level;

-- according to prescribed protective prices-- for other products for which these prices are prescribed, and for other products for which protective prices are not prescribed-- in accordance to the realized selling prices of the producers.

Protective prices for 1985 will be established by the Federal Executive Council before 31 January 1985, proceeding from the Law on the Public Price Control System, and will again be established at the beginning of the second half of the year.

Implementation of selected tasks and goals of credit and monetary policy by primary issue will be supported by monetization with selected grades of securities and other documents issued or obtained by organizations of associated labor in the production sector, or by their internal banks, on the basis of goods-money transactions by these organizations of associated labor, according to the following plan: export of goods and services; preparation for production of goods and performance of services for export; production, supply and reserves of wheat, corn, sugar beets and sugar, oleaceous plants (including soybean), raw oils, rice hulls and rice; planned fattening of livestock (cattle, hogs, sheep, and poultry), fish, meat in refrigerator trucks, milk and milk products of domestic production, tobacco, grapes and wine in wine cellars in the public sector, and apples in refrigerator trucks; coal reserves; sale or purchase of domestic equipment, ships and railroad cars on credit within the country and the import of the most vital products (raw materials) from developing countries and other countries from designated currency areas.

The use of primary issue for the purposes set forth in this clause will help make the connection between production, manufacturing, and trade organizations of associated labor more stable and will stimulate association of labor and resources on revenue bases and the association of the resources of participants in goods-money transactions. In accordance with this, associated resources provided for by self-management agreements or by other appropriate acts in the course of production can serve as a basis for using primary issue.

Credit and monetary policy measures in 1985 will insure more favorable conditions for using primary issue for production and preparation of goods and services for export, for the export of goods and services-- including especially favorable conditions for financing the export of goods to convertible currency markets and the export of goods and services to accounting currency markets which are being carried out in accordance with certain long-term international agreements and transactions of long-term industrial cooperation-- for both production and reserves of basic agricultural and food industry products, for creating reserves of these products and for coal reserves, for other selected purposes according to the conditions of utilization of primary issue, in accordance with growth limits of primary issue established by the Resolution on Implementing Tasks and Goals of Joint Issuing and Monetary Policy and Joint Credit Policy Bases in 1985.

Use of primary issue for transactions involving imports will be regulated restrictively, so that only the import of the most vital products (raw materials) from developing countries and other countries of designated currency areas will be supported by primary issue, according to the list of products and countries which, based on cooperation with authorized republic and provincial organs, is established by the Federal Executive Council; in addition, conditions for using primary issue, with regard to the rediscount rate, are to be less favorable compared to other purposes with the exception of financing imports of naptha whose rediscount rate should be in the corresponding proportion to rediscount rates for purposes established in paragraph 6 of this clause, and the time periods of use are to be coordinated with the time necessary for import, transport, processing, and sale.

Primary issue will also be used for providing credit to banks based on credits given by banks to citizens for housing construction, housing purchase, and for construction and equipment for trade shops, agricultural business projects, and other commercial projects, for carrying out normal activities of citizens on the basis of final sale of foreign exchange from their foreign exchange accounts and foreign exchange savings deposits.

Primary issue can be used for covering exchange rate differences in 1985 in exceptional cases on the basis of federal law.

The law will insure the use of a part of monies from primary issue, within established material limits, for temporarily spanning the flow of money for

repairing earthquake damages in the territory of the Socialist Republic of Serbia, excluding the territory of the provinces, and in the Socialist Autonomous Province of Kosovo.

6. Monies of social-political communities deposited at republic national banks and autonomous province national banks during 1985 will be administered in accordance with credit policy of republics and autonomous provinces; in addition, it will be insured that these investment deposits are kept within the limits of available funds.

7. In order to encourage association of labor and resources and to reduce the number of credit relationships in the economy, organizations of associated labor, as bank founders, will establish conditions for more efficient implementation of labor and resource association on revenue bases on the unified Yugoslav market by general self-management acts and by bank business policy, in accordance with goals of development policy established by the Resolution for 1985.

Credit policy of republics and autonomous provinces, in accordance with joint credit policy bases, will be used to undertake appropriate measures and carry out activities for encouraging association of labor and resources on revenue bases on the unified Yugoslav market.

8. In order to implement tasks and goals of joint issuing and monetary policy and joint credit policy bases established by this decision, banks are obligated, in accordance with the law, within a period of 60 days from the day this decision goes into effect, to conduct proceedings for self-management decision-making in order to:

1) insure funds for supplying credit and other forms of financing for priority intentions, which, in accordance with this decision, are supported by primary issue;

2) insure funds for supplemental supply of credit for the export of equipment and ships and for carrying out investment projects in foreign countries on credit through the Yugoslav Bank for International Economic Cooperation;

3) associate funds for providing a steady flow of working capital to the economy of the Socialist Autonomous Province of Kosovo in 1985, in accordance with article 26 of the Agreement on Special Measures for Implementing Policy for Accelerated Development of the Socialist Autonomous Province of Kosovo from 1981 to 1985.

9. In order to improve the liquidity of the economy and of banks, banks will establish, as part of their business policy, the necessary level of liquid assets for meeting their obligations so that they are able to create obligations only up to the established level of these assets.

The National Bank of Yugoslavia will establish in detail the conditions for when a bank is considered to be illiquid, and on this basis will prescribe

a minimal rate of liquidity a bank must have in order to be considered credit-worthy and to be considered liquid, and it will prescribe measures in accordance with illiquid banks.

10. In accordance with interest rate policy established by the Resolution for 1985, adjustment of interest rates with the rate of inflation will be continued.

Adjustment of bank interest rates pursuant to paragraph 1 of this clause will be insured by having positive interest rates on unassigned dinar term deposits of citizens and business.

Adjustment of bank interest rates pursuant to paragraph 1 of this clause will also be insured by establishment of a minimum interest rate on new credits which are approved from bank assets during 1985, except for selected credits for export and agriculture which involve the participation of primary issue, and on credits for public housing construction.

The general minimum interest rate for the production sector will be established by adjusting the general minimum interest rate for 1984-- provided for in the Self-Management Agreement between Banks on Interest Rate Policy-- by adding one-third the difference between this rate and the rate of growth in inflation for 1984, and for the nonproduction sector by adding one-half this difference. An exception is that if credits are in question which a bank has approved from its own assets for long-term financing of primary agricultural production, the minimum interest rate will be adjusted by at least one-fifth the difference between the inflation rate attained in 1984 and the minimum interest rate established for this purpose for 1984 in the Self-Management Agreement between Banks on Interest Rate Policy.

For financing investments in other priority areas which were cited in clause 13, paragraph 2 of the Resolution for 1985, the minimum interest rate will be adjusted by at least one-fourth the difference between the inflation rate established for 1984 and the minimum interest rate established by the Self-Management Agreement between Banks on Interest Rate Policy for these purposes in 1984.

Credits with a more favorable interest rate for investments in priorities mentioned in paragraphs 4 and 5 of this clause cannot be more than 70 percent of the total dinar credits for investment in 1985 at each bank.

In order to adjust bank interest rates to be in accordance with this clause, banks will initiate proceedings for concluding new self-management bank agreements on interest rate policy, or for adding a supplement to an existing one.

11. In order to insure assets necessary for financing priorities from clause 3 of this decision, banks, as part of their business policy, will guarantee:

- 1) that they cannot accept term deposits from, nor give new credits to,

users of public assets which have not settled mature obligations with regard to previously given credits and other investments;

- 2) that they will not accept term deposits from, and provide credits for fixed assets to, organizations of associated labor which have not provided for working capital in accordance with the Law on Insuring Fixed Assets;
- 3) that they cannot provide credits to organizations of associated labor for covering losses if these organizations have not established and accepted a rebuilding program in accordance with the Law on Rebuilding and Discontinuance of Organizations of Associated Labor;
- 4) that they do not provide new credits to organizations of associated labor which have not changed foreign exchange, realized by export of goods and services, over to dinar assets or have not transferred the foreign exchange to a giro account, in accordance with the Law on Foreign Exchange Operation and Credit Relations with Foreign Countries.

12. In order to strengthen financial discipline and to insure their own liquidity, banks are obligated, as part of their business policy, to insure that priority is given to foreign countries in settling obligations, to insure regular payment of obligations within the country, and to take effective measures for paying all their claims in the time allotted. In order to do this, banks, in carrying out their business policy, will insure that investment credits are given only to users of public assets who satisfy all conditions of credit worthiness and financial discipline, satisfy obligations regularly within the country and abroad, and guarantee goods-money transactions which have been initiated with instruments of payment guarantee-- according to the Law on Guaranteeing Payments between Users of Public Assets-- and which issue instruments of payment guarantee exclusively on the basis of goods-money transactions actually initiated.

13. Credit and monetary policy measures and bank business policy will be used to influence implementation of public price control.

Credit and monetary policy measures will be used to insure that banks do not supply credits for reserves of finished goods at producer organizations of associated labor at a level above that required, except for seasonal reserves whose financing involves primary issue, and except for seasonal reserves of other finished products which will be established by the Federal Executive Council.

The Federal Executive Council will determine by resolution, in detail, methods, dynamics and other essential conditions for application of measures from paragraph 2 of this clause.

Banks cannot provide new credits to organizations of associated labor and to other users of public assets for which an authorized organ of market inspection, or an authorized organ for matters involving public price control, has established:

- 1) that in the process of setting prices or in the process of establishing elements for setting prices in a self-management contract or agreement, they used monopoly position, or arrived at an unequal position regarding another organization of associated labor, another self-management organization or community, in some other illegal manner;
- 2) that they held reserves of goods in order to create an artificial shortage on the unified Yugoslav market;
- 3) that they did not observe regulations concerning direct price control measures while setting prices for their products and services;
- 4) that they repurchased basic agricultural and food industry products contrary to the conditions established in concluded agreements concerning measures for organized resale of these products;
- 5) that they do not provide information on prices pursuant to article 15 of the Law on the Public Price Control System.

The National Bank of Yugoslavia will deny the use of credits, and other investment loans from primary issue, to banks which do not conform to regulations from paragraphs 2, 3, and 4 of this clause.

The Federal Executive Council will regulate the application of measures from paragraph 4 of this clause in detail.

4. Credit and monetary policy measures will prevent the use of primary issue by banks:

- 1) which do not satisfy the prescribed conditions of credit worthiness;
- 2) which behave contrary to regulations from clauses 3, 11, and 13 of this decision in their business policy;
- 3) which do not fulfill obligations according to self-management agreements concluded on the SFRY level;
- 4) which do not insure verification of allocated use of assets.

15. This decision goes into effect 1 January 1985.

SFRY Assembly

Belgrade, 28 December 1984.

President of SFRY Assembly Dusan Alimpic, with his own hand

President of Chamber of Republics and Provinces Milivoje Stijovic, with his own hand.

YUGOSLAVIA

OBSTACLES TO SMALL-SCALE PRIVATE ENTERPRISE REVIEWED

Belgrade NEDELJNE INFORMATIVNE NOVINE in Serbo-Croatian No 1779, 3 Feb 85
pp 22-24

[Article by Dusan Sekulic: "One Small Step for Small-Scale Enterprise"]

[Text] We are still not taking advantage of the opportunity to employ two million more people, introduce new quality to the market-place, and produce much of what is now being imported. In addition to our traditional weaknesses, another has been unleashed - Dogma.

For five years a Belgrade man fought to obtain a permit to use his own labor and his own capital to earn his own bread. He went without a real job, for all practical purposes, for 40 years, and then, in the twilight of his career as a stock-car driver, he dragged a crepe machine out of Paris. He had seen how in the "city of light" people used this machine to make a living, just as in Munich blood sausage and sauerkraut were peddled, and people sold hot dogs while pushing their "shops" on wheels in front of New York City banks.

"What are you thinking of?" the amazed clerks at the community, sanitation and market inspection offices all asked when he requested a permit to sell crepes on the Belgrade streets. "We are not going to allow such primitivism!" But how do the French, Germans and Americans get away with it? "Leave them out of this, some of them are known for their unhygienic conditions."

Thanks to the intervention of some folks from the local community, the fresh-out-of-oven crepe master received two walled telephone booths, which he joined together to form one "work space", and proceeded to open his enterprise. Prior to this, naturally, he had to "pass" a professional test by attending night school at a workers' university in some town in the interior. When everything was finally ready, the tax collectors nearly shut him down. "But where will our man sit when he comes to count your customers?" they asked the owner, being that there were no chairs to be found either inside the workshop or out in front. At his wit's end, he asked them why the tax-collector would need to sit down anyway.

The epilogue of this story is that those activists from the local community took a lot of criticism, and were suspected of being corrupt, while the owner made a few million dinars a year - new of course - and took on help to work for him.

This was possible because a few years had passed since other, less persistent, less skilled, and less well known people had succeeded in breaking through bureaucratic resistance, and had created competition among the crepe makers of the capital city...

Jobs for Two Million

A lot about this true story is widespread. Despite all the resolutions and declarations, small-scale enterprise is not developing well either in the social or private sectors. Some enterprises, successfully undertaken by private owners in the private sphere, have been regularly hounded by suspicions of corruption, tax evasion, and illegal enrichment. Consequently, quite a few years after the political turnaround concerning small-scale enterprise in general, especially those that are privately owned, and a full two years after acceptance of the Long-Range Economic Stabilization Program, results have been meagre: all told there are about 2,500 small-scale Basic Organizations of Associated Labor in the social sector employing approximately 190,000, and less than 300,000 employed in the private sector, of which 200,000 are owners, and only 100,000 are employees. A less than 10 percent share of total employment and a six to seven percent share of total social production illustrate how "difficult" it currently is for our small-scale enterprise - this really is not much.

If the situation in developed countries is used as a standard - as it is used for comparison - it is striking that in these countries small-scale enterprises with operations employing less than 200 people, accounts for anywhere between 30 percent (Federal Republic of Germany) to more than half of total employment (Japan). Therefore, the estimate of two million more jobs, constantly being pushed by champions of small-scale enterprise is not unrealistic. This figure should suffice to give small-scale enterprise every opportunity to bring us out of our current crisis. In addition to the million actually or fictitiously unemployed who are registered at unemployment offices, there are still at least a million and a half to two million more fictitiously employed, if we accept the figures of the developers of the Long-Range Program of Economic Stabilization. This fact is apparent at every step. These are some of the reasons why at times small-scale enterprise is regarded as the magic wand which will quickly and efficiently wipe out our enormous troubles. Real life, however, has responded cruelly with meager results.

"Small-scale enterprise constitutes a tremendous unused reserve of new jobs," Zdravko Krvina, a member of the Presidency of the Trade Union Confederation of Yugoslavia stated at a recent executive meeting. "Due to strong conservative dogmatic attitudes toward small-scale enterprise in some areas, a strong effort is still needed for it to develop."

Dr Berislav Sefer, a delegate to the SFRY assembly, who has also frequently defended small-scale enterprise as a great potential for reducing unemployment states, "Small-scale enterprise is not some kind of invention, but is a completely natural need of any economic system, as well as an inescapable companion to large enterprise. In fact, today in this country the social sector needs competition precisely from this group. New technology and the new

world-wide division of labor are moving toward smaller units using high participation of individual qualified labor.

From Marx to Stalin

It is not hard to guess why small-scale enterprise has not developed more seriously under the wing of the social sector. Now, in addition to the old problems of clumsy, disinterested, indecisive and inefficient decision implementation, the new problem of our current economic crisis has been added. The vast majority of work organizations can only think in terms of making it through to the next day, and more are thinking of shutting down, than opening up new operations. Contracting organizations of associated labor, conceived of as a happy merger of needed private capital which was guaranteed to turn into socially owned capital, and at times seemed like the naked buying of jobs with currency earned abroad, have gone through a similar association experience as did the peasants. A lot of people praised the idea and caused quite a storm, but the whole thing has fallen apart, even though no one will admit it. A total of about 150 contracting organizations, 42 of them in Serbia proper, have been established throughout the country. No more are starting up because no one wants to make a financial investment where he has to wait five years, only to have his investment eaten up by inflation.

Currently there is only one, probably the most natural, but not always the most desirable possibility in sight: developing the private sector of small-scale enterprise.. Every step in this direction, however, will encounter conflict between a positive attitude toward work along with tremendous financial potential in private hands, especially returning guest-workers, and an incredibly deep-rooted and inflexibly dogmatic attitude which is committed to opposing private ownership of the means of production. In his book, "Socialism and Self-Employment", Dr Cedo Grbic has provided an unusually sound and well documented discussion of this question. Grbic advances the theory that total opposition to any private initiative as a self-indulgent mortal attack on socialism is anathema, in that it demonstrates the difference between Marx and Engels, a lack of clarity regarding their positions on this question, and the questionable suitability of the ideas of those times to today's circumstances. He then discusses Lenin's resolute break-up of private initiative, only to later equally resolutely return to it through the NEP program, which was then followed by Stalin's quick and brutal solution. Stalin has remained the most understood and accepted of all in this area, so much so that today in the wing of the party that most often fights against dogmatism, Josif Vissarionovic has a good number of followers when the subject is private ownership and self-employment. They are frequently even totally unaware of this fact. Nevertheless, even though most of them are more or less aware of the degree of error and stupidity of the earlier forced collectivization of peasants and craftsmen, and the nationalization of small shops and restaurants, old habits die slowly. Every view of private initiative which leaves out the mortal threat it poses to socialism, is still considered the worst kind of sin.

A recent analysis by the Ljubljana Economic Institute concluded that Yugoslavs have at least \$10 billion deposited in foreign banks (the most liberal estimates from other sources place the figure at closer to \$20 billion), and at least

\$2 billion more at home "hidden under the mattress. Consequently, our citizens' money can be found in the funds of the world's creditors to whom we are now struggling to pay interest, and to whom we are pleading for easier terms. Who has the courage to say that it is better that our people's dollars are there, rather than invested in domestic projects at home? Now we are witnessing a general trend on the part of returning guest-workers to high interest savings accounts, because it is easier and more secure for them to live off their interest than to be detested private owners.

Duel of the "Little Gods"

A few years ago, officials of Grocka, an undeveloped community in the Belgrade metropolitan area, announced that the town would be open to any private economic initiative. The relevant community organs were charged with helping interested parties in any way possible, and keeping the red tape to a minimum. A lot of interest was anticipated due to the community's ideal location. Some results have been obtained compared with 1978: the total number of small stores and work-shops, usually private, increased from 600-840, which included three contracting work organizations, and one more just getting off the ground. Unfortunately, this burst of activity is levelling off. They say that those with money feel uneasy, especially after the Lestana episode involving a guest-worker returning from Sweden who built a modern slaughter-house with the blessings of the community. Then the municipal inspectors and sanitation and Public Health officers arrived on the scene. They went through his place with a fine tooth comb, but the grossest violation they could come up with was that, according to our standards and regulations, probably thought up for some brighter future, private slaughter-houses must have set-ups for disinfection and pest-control, as well as a car-wash for the trucks used in the business, none of which are in service in any socially-owned slaughter-houses in the city. Because of this, the man left the money he had invested behind and sadly returned to Sweden, a living example of anti-Yugoslav propaganda. None of this prevented another new private butcher/slaughter-house from springing up soon after on the same Smederovo Road at the intersection of Lestana, Vinc and Bolec, which also lacked the same equipment as the Yugo-Swede's.

"Come on, guess what is going on here," Danilo Saldo, the economic department head in Grocka demands. "Everybody points a finger at the community, as if it were the center of resistance against the development of private initiative. They forget that in our situation the city, and in other places the republic as well, has held onto the right to the final decision."

Backwards!

Market inspection duties in Belgrade have been assigned to the community, but sanitation and "public health" responsibilities have remained with the city. After socially-owned taxi organizations failed and private drivers were allowed to operate, anyone who wanted to could drive. Then the authorities reconsidered and thought up - imagine this - a "Familiarity with the City of Belgrade" exam. Anyone accused of accepting a bribe had to be tested on this very important subject. Associated taxi-drivers are now suggesting a scientific study to prove that the tremendous number of taxi-cabs in the city is making traffic

worse, therefore, a new limit ought to be set, and someone should be charged with deciding who does and who does not get a permit.

"If I were to be placed in the position of subjectively evaluating what and who could work, anything could happen," insists Danilo Saldo. "It is possible that I would accept bribes, or be too scared to do anything that was not precisely according to regulations for fear that the next day someone would accuse me of taking a bribe. In my opinion, a qualified shopkeeper could get a permit to open a private shop, but not a professional economist, because that is not explicitly stated under the law."

Attempts to turn back have at times been organized, vocal and successful. Just last year, community and Belgrade municipal officials decided to leave the question of why so many boutiques and bars were being opened to the market-place. Who knows how many bars and boutiques can co-exist here? And whom will it bother, besides the owners themselves, if the competition squeezes anyone out? What's more, private, not socially-owned money is being invested, so why should anyone interfere at all? But idle retirees in local communities, who consider themselves the sole remaining defenders of socialism, were nervous that a lot of noise was pouring out of the bars, that "youth was being corrupted" there, and that the owners were getting rich. They joined forces with the social sector of the restaurant business, which never bothered to hide the fact that the competition bothered it, and in good time, through the Federation of Unions of Working People of Yugoslavia, they arrived at the political conclusion that the number of private restaurants was increasing uncontrollably, and that it all should be stopped. Why we need so many restaurants and who all these people are is already a concern of the Belgrade Economic Chamber. Under the new Law on Economic Activities of the Self-Employed in the Socialist Republic of Serbia, created with the intention of unifying and simplifying a number of regulations concerning the establishment and activity of private shops, some rights previously enjoyed by private restaurants have been curtailed. This is what the public discussion wanted, the most vocal of whom were representatives of socially-owned restaurants. "To insure quality of service" no one can become a private restaurant owner if he does not employ our professionally qualified personnel, or have at least 20 years experience at the "Savoy". Activities involving "similar skills" have been set aside for five more years, at which time anyone seeking a permit will have to possess the relevant qualifications certified by educational institutions cited in the democratic public discussion. By this time we can assume that new high school reforms will have mandated courses for lottery ticket vendors, penny arcade owners, and the like.

There have been other "contributions" to small-scale enterprise as well. The Federal Economic Chamber stated in a serious analysis that the idea that small-scale enterprise provides new job opportunities is incorrect, because the unemployed and returning guest workers do not have the qualifications necessary to obtain the appropriate permits to work here. If the situation is seen through bureaucratic eyes, to whom form is more important than content, this is true. But, can the decision to forbid someone from opening his own business here if he was a waiter in France, or a semi-skilled worker at "Mercedes" be defended on the grounds that he does not have one of our diplomas, even though it is common knowledge that diplomas can be bought?

Perhaps this is the most important question, can we count on private initiative at all without creating the necessary conditions for it to be given the treatment it deserves: absolute freedom in starting up "businesses" completely outside the authority of the bureaucracy, as is the case in the normal world. The government's duty would then be to collect a few thousand in taxes, certify the seals of new businesses, and be concerned that society collects even more taxes later. Otherwise, whatever the paper pushers and defenders of socialism do, the market-place follows. Obviously this time has still not come.

A Tight Fit

"An overall policy toward the private sector in small-scale enterprise has been formulated, but it has still not taken hold in society," states Nada Kovacevic, assistant to the President of the Republican Exchange of Goods and Services Committee, and who is responsible for small-scale enterprise. "Consequently, the use of any individual or forum as the measure of the attitude toward self-employment is not wholly successful. The political climate varies from commune to commune, due to authorized officials often intentionally dragging their feet or overly complicating the permit procedure because they fear reprisals from above, and suspicions of corruption."

Taxation "policy" is a story in itself. Belgrade restaurant owners registered monthly earnings of between 10 and 15 thousand, which obviously does not come close to the truth. With the blessings of the social sector, a 33 percent tax was assessed for them which forced many of them to go out of business, when the tax collectors should have been enabling them to continue their work. Returning guest-workers are constantly having the wool pulled over their eyes by stories of tax-free first years, and longer, if they provide new jobs. Only after they have jumped in with both feet, do they comprehend that they are free only from the first 1000 dinars in taxes, but not from a contribution of 100 thousand.

The final straw was another "policy", this time in the area of personal income tax. Anyone who makes more than 50 "million" will now be taxed the same amount as he makes in a year according to the social agreement recently accepted which stipulated that next year's taxes would be based on the amount of two average months' personal income. Some actually still hope that an individual who has been abroad where he earned two or more thousand dollars a month, will come home, invest his money in small-scale enterprise and be content with yearly earnings of two thousand dollars. The so-called taxation system has been tailored for those who fit into this income bracket, anybody who earns more will be mercilessly taxed.

Defenders of "Dogma", Cedo Grbic writes, "have nothing to worry about for now."

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YUGOSLAVIA

ORIGINS, PROSPECTS OF SUPERINFLATION EXPLORED

Belgrade NEDELJNE INFORMATIVNE NOVINE in Serbo-Croatian No 1783, 3 Mar 85
pp 12-14

[Article by Branko Colanovic: "Inflation Is No Simple Matter"]

[Text] January 1985 was the all-time record. The price rise for the month was 9.2 percent, the dinar's decline against the dollar 9.5 percent. We might recall Nikolay Bukharin. He would praise this kind of development to the skies, convinced that galloping inflation and devaluation are the fastest road to communism, when money will no longer exist.

Why are we in the worst place in Europe with respect to the level of inflation? A chronicle which could offer a survey of this would cover a period of 8-9 years, and the thesis is this: first a foggy diagnosis, then the wrong treatment, and finally the disease is in full blaze.

If we must take some base for comparison, we can choose 1976. At that time the rate of inflation was 9 percent, which was quite favorable in the context of European developments at the time: better than in Great Britain, Spain, Finland, Italy, Ireland, and so on. After the great excitement in the previous 2 years, when the rise of retail prices was 26 percent annually, this seemed to be some kind of miracle. Unfortunately, it was only an ephemeral success. Even by 1977 the rate of inflation was 13 percent, and after that it rose rapidly year after year.

At the end of 1979, when the rise of retail prices reached 22 percent, the Presidium of the LCY Central Committee concluded that "development policy in 1980 must be resolutely anti-inflationary...." However, practical economic policy did not respond to that order. In 1980 inflation climbed to 30 percent, in 1981 to 46 percent ... in 1984 all the way up to 53 percent.

A Simple Scheme

Predominantly cost inflation or predominantly demand inflation? Economic policy has never given evidence of that kind of dilemma, assuming in oversimplified terms that inflation is inflation, a simple and unambiguous phenomenon, but resorting primarily to measures which were aimed at restraining or even reducing consumption.

As a matter of fact, *prima facie* disproportionately high consumption does mean that effective demand is also disproportionately high, that is, that it does not correspond to the supply. Which accounts for the rise of prices. The remedy is to curtail demand, diminish consumption in that way, and to calm prices down.

Economic policy has consistently nurtured this very simple scheme year after year. Since 1979 the social product has been moving toward stagnation, and all forms of domestic consumption have been tending in the direction of an absolute decline. This especially applies to real personal incomes, which in per-worker terms in 1984 were one-third below what they were in 1979, but also to investments in fixed capital, which in real terms are down approximately one-fourth. Even government and social service expenditures, which have always stubbornly resisted all the resolutions to the effect that they must be trimmed, dropped about 8 percent in real terms.

Everything that knowledge and imagination could find in the arsenal of restrictive measures was used to bring this about. Limitation of the rise of nominal personal incomes, suppression of moonlighting and free-lancing, of entertainment expenditures, official travel, social service expenditures of organizations of associated labor and advertising expenditures; strong restraint of the growth of the money supply to keep it below the growth of the nominal social product, prescribing the maturity pattern of bank lendings, permanent restriction on the growth of bank credits, a huge rise in the discount rate of the National Bank and bank interest; heavy restrictions on imports, especially imports of equipment, prescribing the ratio between fixed capital and working capital within economic organizations, exaggeration in devaluing the dinar; administrative price controls and occasional price freezes; various ways of restricting economic investments and prohibition of noneconomic investments ... everything was pruned, yet inflation jumped explosively higher and higher.. There can be only one conclusion. These remedies did not correspond to the nature of the phenomenon.

There was no way that this kind of restrictive policy could have borne fruit under the conditions of a pseudomarket. The Yugoslav market is not of a piece, which means that it is not a market in the contemporary sense. On the contrary, on that terrain we will often see barter, trade with strings attached, business blackmail, black market rates of foreign exchange, false assignment of goods to grades and assortment categories, forcible pooling of investment capital, imposed self-management accords, and so on. Eight national economies, already firmly established by the constitution or distortions of it, each powerfully protecting its part of the economic space of Yugoslavia. On each of them prices are boosted in order to cover all the needs of creating new jobs, raising the standard of living and the social standard, building up the health service, the schools, athletics, transportation routes, etc., and also covering all the losses in the conduct of economic activity, mistakes in investment projects and shortcomings in foreign economic relations. Those hiked-up prices were offered to others with the help of the veto in the competent federal authorities. This kind of autarky brought about a strong drop in interrepublic exchange of goods and services, and joint ventures over republic or provincial boundaries are almost unknown. However, when it is left

confined to its own cage, when it is not successful in passing on these hiked-up prices to others, this kind of local autarky must find a way out in boosting prices in its own consumption.

There will be little success in suppressing inflation without a unified Yugoslav market, a market which is freed of large price disparities and a market which is subject to the strict action of independent courts which are uniform over the entire territory of the country; a market on which a uniformly linked, coordinated and interdependent fiscal system is operative; a market on which organizations of associated labor engage in activity without being forced in the name of the responsibility of the republics and provinces for their own economic development to tie the use of their accumulation unconditionally to "their own" region. If this cannot be realized, objectively there is not much hope for an effective anti-inflation program. If this is not feasible, the transition to free prices this January cannot change anything essentially in this regard, since the Yugoslav market, the way it is now, is in and of itself a very strong generator of inflation.

The restrictions of demand and consumption have meanwhile exposed the true nature of inflation. Unfortunately, it is basically cost inflation. This means that it cannot be treated primarily with improvements in the economic and political system.

From 4:1 to 25:1!

It is characteristic of investment projects that they do not conform to the principles of building the economic potential and economic structure that arise out of clear market commitments, the corrective role of the plan or the need to safeguard that kind of capital formation which constantly and strongly improve the productive forces, but rather is very strongly influenced by local and republic-provincial arbitrariness in the selection of projects, in siting them, in deciding the size of capacity and in the way they are financed. The consequences are serious, and they are expressed in the form of general investment inefficiency. This is reflected by what is called the capital coefficient, the ratio between the capital invested in fixed capital of the economy and the growth of the social product. In our country it is unfavorable and getting more unfavorable. Over the period 1957-1965, before the 1965/66 reform, we had 4.12 dinars of investments for every dinar of the new social product, but since that time the general efficiency of investments has deteriorated uninterruptedly. In 1979 we had 6 dinars of investments for every dinar of the social product's growth, and then every year poorer and poorer, and in 1981 about 25 dinars, or fourfold more.

The ever poorer utilization of the economic potential seems to have been exerting an impressive influence on producer prices. The level of capacity utilization in Yugoslav industry has been as follows:

1980	69%	1982	65%	1984	63%
1981	68%	1983	62%	(1st half of year)	

There are branches of industry in which capacity utilization is still lower. In 1983 it was worst of all in petroleum refineries (44 percent) and the furniture industry (46 percent). In the first half of 1984 it was approximately the same. The problem of low capacity utilization cannot be solved in the Yugoslav context by a restrictive economic policy.

If we pass on from investments and fixed capital to working capital, we encounter similar phenomena and a similar baneful impact on producer prices. The rate of turnover has been poorer and poorer (the figures are for the economy as a whole):

1969	4.55	1976	2.86	1982	2.29
1972	4.34	1979	2.29	1983	2.33

In simple terms, the ratio of gross income of the economy to average working capital employed was 4.55 in 1969 and only 2.33 in 1983. However, in our context a simple and crude restrictive policy cannot correct this either.

In the domain of labor productivity we note a similar decline. The number of effectively expended hours per worker per month has been declining over the years for which the statistical service has published figures. The trend has been as follows (in hours):

1968	157	1972	151	1978	146
1970	154	1974	150	1981	146

This is only one factor in the decline of labor productivity, but it is related to numerous forms of laxity in the employment relation, in work discipline and technological discipline, in the system of remuneration and distribution, and so on. Other factors arise out of the immense shortcomings of the market, the absence of unified Yugoslav planning and a restrictive economic policy. Labor productivity in the economy, taken as the size of the social product per person employed (1972 prices) has been as follows (in dinars):

1979	58,400	1981	56,800	1983	54,000
1980	57,700	1982	55,300	1984	53,600

(estimate)

The trend of labor productivity in coming years could be upward only if the social product grows faster than total employment. The prospects for that are not good when we bear in mind a) that the social product has been stagnant for 5 years now and b) that opening up new jobs is a very serious sociopolitical necessity.

Finally, in this survey, which is only illustrative, we should emphasize the burden on the economy represented by contributions for government and social service expenditure as well as for the very ambitious housing construction. The contributions earmarked for those purposes are of an institutional nature, since they are bound by legislation and are based on the personal incomes of the employed labor force. When labor productivity drops, these appropriations, which in and of themselves are quite large, put a still greater

relative burden on producer prices. The fact that government and social service expenditure has declined more slowly than personal and investment expenditure, as we mentioned earlier, has given a strong impetus to the inflation which is engendered by rising costs.

However, economic policy has abundantly supplemented these factors of cost inflation, which in our context is practically predetermined, with additional factors. For example, we might mention interest rates, the rate of exchange of the dinar and the foreign exchange system.

Since it was negative in real terms for decades, that is, below the rate of inflation, the interest rate was correctly conceived in the Anti-Inflation Program as a weapon against inflation only if it is positive in real terms, that is, higher than the rate of inflation. This program committed itself explicitly to achieving this gradually, very cautiously, because of the possible whiplash effect of faster inflation if interest rates were raised too suddenly. However, economic policy took precisely that wrong step. It committed itself to raising the interest rate higher than the rate of inflation regardless of the circumstances and consequences.

What was that supposed to achieve? So that the rate of interest in the context of the pseudomarket would be an instrument for distribution of social labor and choice in the use of investment capital? Was it truly impossible to see that that was unfeasible and that the result could only be a rise of cost inflation?

Or, the place given to the rate of exchange of the dinar in the Anti-Inflation Program. It explicitly postulated that the rate of exchange merely levels out differences in the level of inflation between our own country and countries which are our trade partners, but it should not take over the role of all the known instruments which are applied to support the indispensable exporting of goods and services. Economic policy did precisely that, whereby it inevitably slid into the practice of an unrealistic and exaggeratedly undervalued dinar. Exports were supported, but the outcome was negative along all the other lines. This dealt an immense blow to import prices as well as to the dinar level of annual payments against foreign debts.

This meant a new and strong fanning of the flames of cost inflation. The owners of foreign exchange accounts, thanks to the principle of the uniform rate of exchange, recorded immense jumps in the dinar equivalents of their foreign exchange, and in that way acquired an immense effective demand which they did not earn, considerably greater than they would have received from lending out the money in their deposits at interest ... [garbled sentence] ... rates of exchange is inapplicable because of the country's international obligations. The unprecedentedly high differences in rates of exchange are a burden falling upon the commercial banks, which is unconstitutional, since the law does not allow them to perform on their own account a single transaction which is related to the occurrence of differences in rates of exchange. And when the current income of the banks cannot cover the differences in rates of exchange, they are expensed over the distant future, which also contributes to inflation.

The foreign exchange "system" has brought about a relative and absolute decline of export prices, compelling organizations of associated labor to make up the income lost in this way by raising domestic prices.

An Erroneous Elaboration

We find, then, that economic policy first overlooked that it was dealing with cost inflation, administering medicine as though it were dealing with a pure case of demand inflation; just as though you resorted to the treatment for typhus in treating typhoid fever.

The method of all-inclusive restrictions on total demand could have been successful if the market were performing its functions effectively; if sectoral and regional mobility of capital had not been flagrantly obstructed; if a mass layoff of workers had been feasible. That is not the case in Yugoslavia.

In our context a policy of restrictions across the board does not operate uniformly. Its effect is spontaneously concentrated on the weakest points of the economic organism (in our case the petroleum industry, the railroads, and so on), and on the rebound it broadens inflation and raises it to an ever higher level.

Viewed in the spirit of the conceptions set forth above, the principal commitments of the Long-Range Stabilization Program appear to be correct and clear. What is not clear is how it is possible to make a political decision to draft and adopt the Long-Range Program, when this is not followed by a political decision to implement it as a whole, in its essential elements.

The "laws embodying the system," which were adopted in 1977, did not elaborate at all or erroneously elaborated the constitutional philosophy about the planned market economy. They in fact left us without a true market and without a true plan and without hope in the battle against inflation. But we do not have the right to leave it at that.

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YUGOSLAVIA

TWO-LANGUAGE EMPLOYMENT REQUIREMENT TERMED DISCRIMINATORY

Pristina JEDINSTVO in Serbo-Croatian 30 Jan 85 p 6

[Article by Mirko Cupic: "Intolerable Identifications"]

[Text] More and more often, bilingualism is one of the special requirements for obtaining a job in the competitions of work organizations in Kosovo. Even though this peculiarity of Kosovo has been subjected to extensive social criticism--especially after the counterrevolutionary events, and particularly because it encourages isolation in narrow regional districts and prevents equal participation in the competitions by people from other linguistic areas--it seems to have been experiencing a renaissance recently. There really are few jobs, even ones in which deaf-mutes could work, in which knowing the Albanian and Serbo-Croatian languages is not one of the requirements for entering the competition and achieving the status of a worker in associated labor. Naturally, particularly disturbing in all of this is the fact that bilingualism is usually intolerably identified with belonging to the nationality of the majority of the population of Kosovo, and this undoubtedly cannot avoid influencing the emigration of Serbs and Montenegrins, but also their return.

The extent to which this phenomenon has achieved the "right of citizenship" is best confirmed by a look at the self-managing general acts of work organizations in the Pristina opstina, which was published in the middle of last year. On the basis of their own reports, which were compiled by only 128 out of 680 work organizations and basic organizations of associated labor, it was learned that first, second, or third-level bilingualism was essential or desirable for more than a third of the jobs (in which the number of those performing the work and the work tasks was much larger than the number of jobs). The written explanations were usually formulated as "a realistic requirement" or a "realistic need," and sometimes even as a "constitutional right." Naturally, such "requirements, needs, and constitutional rights" also entail a monetary compensation which in some work collectives is paid in the form of a flat rate, and insome as 2 to 6 percent of the starting salary. Such monetary outlays are obviously a burden on associated labor, since they are not a product of the results of work, but they are much less important than the inevitable political consequences. The abuse of the concept of "bilingualism"

has a direct effect on the policy of employing Serbs and Montenegrins. In fact, it has been the established practice that preference is given to those whose mother tongue is Albania. There are many examples, and we will only mention a few of them here.

For instance, the shock absorber factory, in its self-managing acts, stipulated bilingualism for 261 out of 459, which is more than half of the total number of jobs. Viewed realistically, in this collective there are no more than 15 jobs for which it could be said that bilingualism is desirable, but not essential or mandatory. It is really mandatory for workers in direct production to know Albanian and Serbo-Croatian, except for getting to know each other, when the productivity and quality of their work is the basic measure of their value on the job? Bilingualism is required for 47 out of 121 jobs at the Feronikel work community, and for 31 out of a total of 74 at the Dardanija work community. The provincial cultural center employs only 9 workers, but the knowledge of both languages is essential for the 4 head jobs, while at the work community of the SIZ [self-managing interest community] for education, culture, and physical culture, only one job out of a total of 14 is exempt from the bilingualism requirement. The internal bank of Agrok [remainder of wor illegible] required bilingualism for 22 jobs out of a total of 38, and the Official Newspaper of Kosovo did so for 13 out of 16 jobs. Of course, the most significant case is that of Lutrija Kosovo, where the knowledge of both languages is essential for all 98 jobs. And so on, in all the work organizations and basic organizations in the area of the Pristina opstina, bilingualism is required, in some places for a quarter of the jobs and in some places for more than half of the total number of jobs, and for the management jobs without exception. The sole exception is Elektroprivreda Kosova, where not one job is conditional upon knowing both languages.

There are more than a few examples which obviously indicate that the concept of "bilingualism" is being used for manipulations in connection with employment, to the detriment of workers of the Serbian and Montenegrin nationalities. Thus, for instance, between 1 March 1973 and 1 March 1984, the Surgical Clinic in Pristina employed 60 workers, of whom only 3 are of Serbian nationality, and at the University Library, of 13 newly hired workers, one is a Serb, while at the Kisnica and Novo Brdo Mines, this percentage is much more drastic. The rest of the work organizations are also not immune from conducting this kind of employment policy, with the difference that the identification of the concept of "bilingualism" with nationality, to the detriment of Serbs and Montenegrins, is manifested less in some places and more in others.

Last year alone, 300 Serbs and Montenegrins left work collectives in the area of the Pristina opstina and emigrated from Kosovo, and this means that the same number of jobs became vacant, so the question arises of why there has been so much "tension" about the employment of 150 returnees. Of course, part of the answer is contained in the fact that bilingualism was made a requirement for almost all of these jobs, and that, of course,

is contrary to the general political determinations, the Platform of the LCY Central Committee on Kosovo, and finally, positive legal regulations. The equal utilization of languages and scripts, which is undoubtedly a significant revolutionary achievement, does not also entail a simultaneous obligation to be bilingual as a condition for employment. Unfortunately, these two concepts are frequently identified and abused, and we must acknowledge that this is intolerable for several reasons.

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END